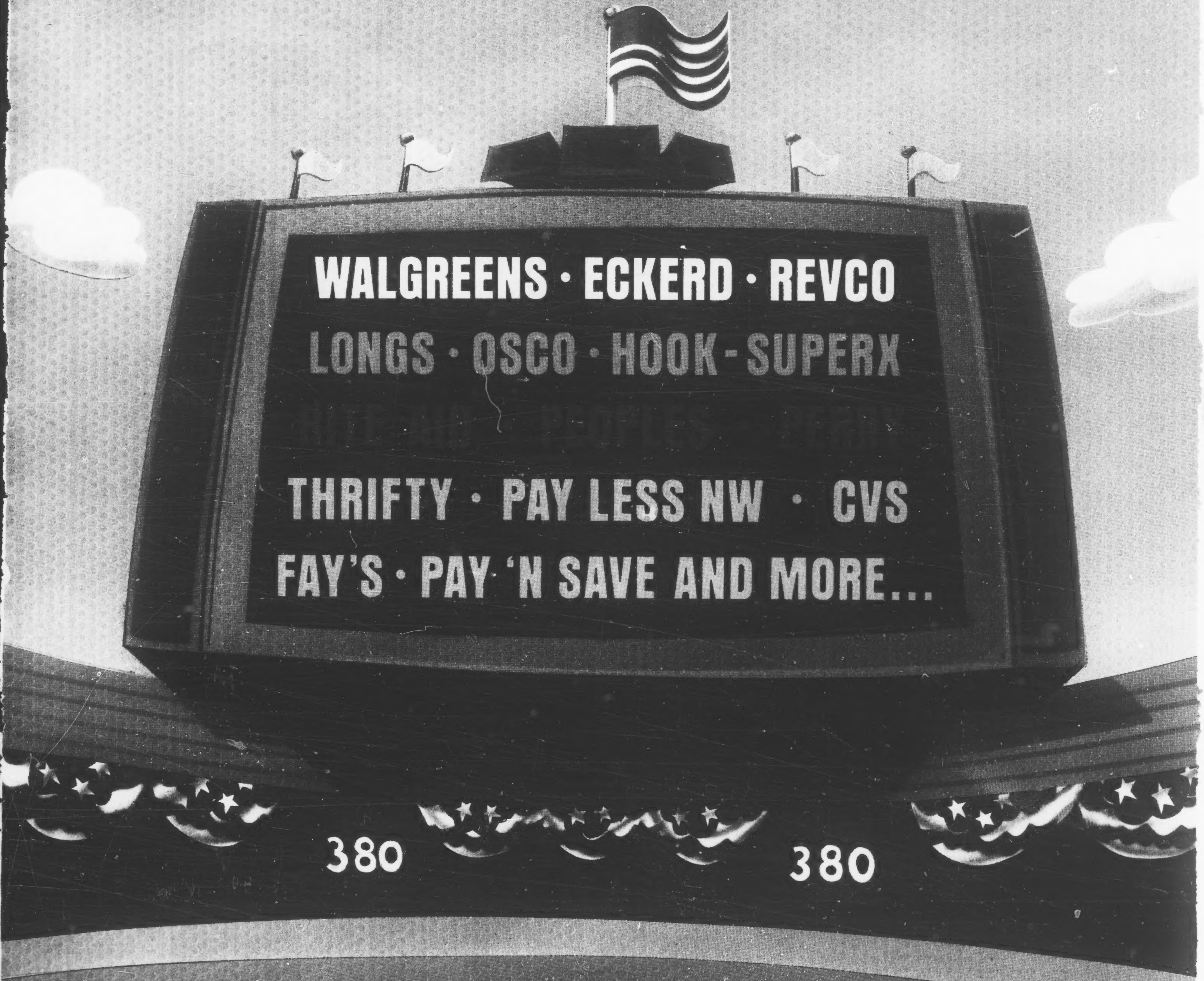
DRUG STORE NEWS®
April 11, 1988

THE 1988 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

PART ONE


WALGREENS · ECKERD · REVCO
LONGS · OSCO · HOOK-SUPERX
THRIFTY · PAY LESS NW · CVS
FAY'S · PAY 'N SAVE AND MORE...
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Drug chains grow despite difficult odds

Despite a tumultuous year, the chain drug industry managed to generate $32.6 billion in sales for 1987, a gain of 8 percent in a year marked by little inflationary pressure.

Overall, the retail drug industry posted a 6-percent sales gain to $53.5 billion, according to A. C. Nielsen Co.

The advances came despite a continuing assault on the drug store market by large combination store operators and mass merchandisers, who have captured an increasingly larger share of the health and beauty aids market in recent years.

The chains have fought back, however, by re-emphasizing their broader selection of core drug store products, convenient locations, in-and-out shopping

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Drug chain executives look to the future

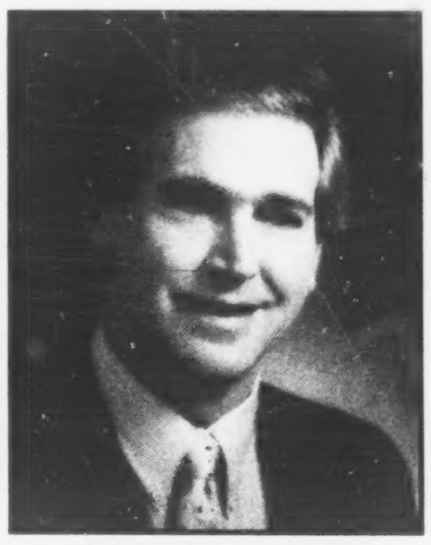
Boake Sells
chairman, ceo
Revco D.S., Inc.

"The changing nature of the health care delivery system in the United States today is a critical issue for those of us in the retail drug industry and for our customers. The erosion of the traditional fee-for-service system puts physicians, patients, and our customers in a difficult position. People are being told who they can use for health care, how much they can spend, how soon they must leave the hospital, or whether they need medical care at all.

"Such issues cast new light on the role of the pharmacist in our stores. Drug stores have an opportunity to be much more than we have been in the past. Is the delivery of professional health care changing? Yes. Do people need help in dealing with that change? Yes. Of course. Does that mean a golden opportunity for drug stores? Absolutely. We can be more than just a place to pick up a prescription. Our customers need help in understanding their drug therapy—help from new sources, sources they can trust.

"In too many cases, pharmacists have been unrecognized and under-utilized as the professional health-information providers that they are. The industry has an opportunity to assume a leadership role in this area. In our view, we must take this lead or we are in danger of becoming a price-driven segment in a very big health care system.

"Looking to the upcoming year, we at Revco will make a significant investment in our professional pharmacists' unique position in this changing environment."



Tim McAlear
exec. vice president
Pay Less NW

"While the economic outlook for this year seems to vary from one economist to another and changes from one network news program to another on a weekly basis, our outlook for 1988 at Pay Less is one of optimism.

"Again in 1988 we will open a minimum of 30 new Pay Less stores added to the 47 stores that we opened in 1987. We are now receiving POS scanner information from over 25 percent of our chain, which has not only enabled us to control our inventories, it has also afforded us the opportunity to do target merchandising in the different markets that we now represent.

"We are pleased with the results and will continue to add apparel departments to some of our larger stores in 1988. However, our main emphasis will be on our core drug departments. We will continue to emphasize our pharmacy business, which continues to grow at an exceptional rate.

"We have an ongoing program to encourage our pharmacists to offer the best possible personal customer service and counseling their needs. Our commitment to being a service-oriented super drug chain on the West Coast will help us improve our market share and continue to make the drug store industry a viable retailing concept.

"The maturing American population, with households bringing in dual incomes, looks for quick, convenient shopping from friendly people they trust, and this affords increased opportunities for drug stores in today's retail market."

Robert W. Hannan
president
Thrift Drug Co.

"In 1988, our industry has the obligation to provide customers with more reasons to shop our drug stores. Most of the merchandise that we sell can be purchased at numerous other retail outlets, and often as part of a food or general merchandise shopping trip. We must continue to build our strengths and our draws to strengthen the relationship with our customers.

"The number and varying type of retail stores selling traditional drug store products continues to grow dramatically. This growth in retail has outpaced the population growth in many major metropolitan markets. The retail expansion in 1988 appears to be running at the fastest rate of the 1980s. There will be more 'open doors,' and existing chain drug outlets must do better than the newcomers to hold market share.

"Our 1988 objective is customizing the store, with a merchandise mix, services, and staff to meet the specific needs of the local customers. Demographics, work patterns, and community agendas should be considered as we develop with our customers the attitude that this is "their store." The pharmacist-patient relationship will likely be the cornerstone of this association.

"Nineteen-eighty-eight will bring large doses of hot promotions, hefty discounts, and new competitors. However, we are an industry that can be flexible and responsive. We should identify what we do best and do it better and better, while avoiding a simple 'Me too' response. By recognizing and emphasizing our strengths, 1988 should be a solid year for the chain drug industry."

Sheldon "Bud" Fantle
chairman
Dart Drug Stores

"It is difficult to make projections relative to the economy since none of us has a crystal ball, but on balance, I feel that the economy will be flat at best, with possibly even a slight decline in the next 12 months. The uncertainty of a year in which the Presidential election is held, as well as an apparent uncontrolled budget, are key factors in my evaluation. My feelings are substantiated by a lack of positive economic indicators.

"As the economy relates to our industry, I feel that we can compensate for this shortfall through innovative and creative marketing, as well as a tight rein on expenses. We must recognize that there must be some change in the format of the chain drug store as we battle for market share against the deep discounters and supermarkets. We must accentuate the benefits of convenience as well as the ease of shopping in a small store vis-a-vis a 50,000- to 100,000-square-foot competitor.

"The drug store customer is changing, and we must be aware of the fact that the younger generation from 14 to 20 years of age is a viable customer with definite buying habits, as well as having a substantial amount of spendable income that they can utilize for their desires.

"The other end of the spectrum, which is equally as important, is the customer over 60 years of age, who has a great need for the primary products sold in a chain drug store. To these people, ease of shopping is essential, and their desires must be met if we are to maximize their buying power. We are in a critical period in which our entrepreneurial skills will be tested and challenged in order to assure continued growth and profitability in our industry."

Stewart Turley
chairman
Eckerd

"Chain drug stores are a part of the health care system, and as such we must be alert to the rapid changes occurring in this delivery system.

"For example, significant changes in our nation's health care system hold some concerns as well as opportunities for the chain drug industry. Employers, health professionals, insurance companies, government, and many others are concerned about the rising cost of health care which seems to continue unabated.

"In the past 10 years, health care costs have exploded. Why? First, we have made tremendous scientific advances in health care—over 75 percent of the knowledge and technology today did not exist 20 years ago. These advances are more costly and have increased life expectancy.

"Second, we face an increasing number of elderly persons in our nation. Eleven percent of the population that is over age 65 in the U. S. consumes 35 percent of the health care dollar today. It is estimated that 40 percent of the Medicare dollar is spent on providing health care in the last year of life. Since people are living much longer with new health and medical care advances, our health care system will be increasingly stretched and more expensive in the future.

"For years, drug stores have dealt with convenience and price due to the competitiveness in the marketplace. But with current estimates predicting that 76 percent of health care will be under contract in 1995 versus approximately 22 percent today, there could be a shift to quality of care. With more emphasis on contract care through institutions, PPOs, and other formats, more of our prescription business will be covered by contract.

"To meet this need we must encourage strong economic and service incentives for beneficiaries as the best means of providing cost control. The consumer in any plan should have a healthy incentive to insure that the competition in the marketplace can provide cost savings with high quality care and service.

"Given the high trust and confidence consumers have in pharmacy today, we need to insure that we maintain our position as the health care system changes in the future."

Henry A. Panasci, Jr.
chairman
Fay's Drug Stores

"I feel that 1988 is going to be a strong year. There is no evidence to the contrary. Certainly all the economic indicators are very positive, and in no way reflect the doom and gloom that I'm hearing and reading at times in the media.

"In the past couple of years Fay's has positioned itself to be a leader in the marketplace, adjusting to competitive pressures. That includes maintaining a leader's position in product pricing and selection, and in the prescription service business.

"I think anybody in the health business is in some way going to benefit by the fact that more people are getting older. That's on the plus side.

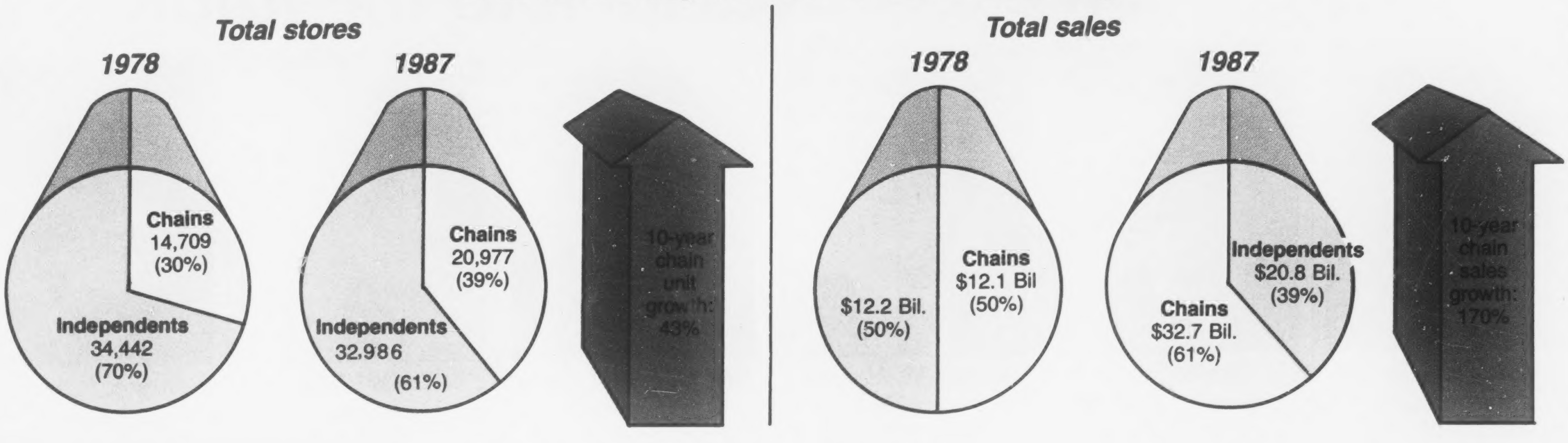
"On the opposite side, the health industry's growth has produced a highly competitive marketplace. We expect mail order firms to be stronger, for example.

"Fay's is committed to expanding into alternative prescription environments. We have a small prescription service in a day surgery center, and plan to increase our nursing home business."

THE 1988 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

PERFORMANCE

Chains vs. independents: A decade of change



Source: A. C. Nielsen Co. and *Chain Store Guides*

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Chains take on the odds in 1987

Battle share encroachment, register 8-percent gain

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ease, and friendly service.

Many chains also made strides in honing their operating efficiencies at headquarters and in stores, and in upgrading their distribution capabilities with new automated warehouse systems.

Most growth on hold

A few chains, such as Rite Aid and Hook-SupeRx, pursued aggressive growth in 1987, but the majority held back, preferring instead to seek a higher return on existing assets through store remodels and upgrades.

A parallel development was the vigorous effort by many chains to tighten their grasp on their primary markets and to abandon areas where their investment had failed to pay off in a greater share of sales.

Thus, chains like Osco and Longs engaged in a mutual sale of stores in Arizona, northern California and Colorado, and both came out of the deal in a much stronger position.

Although the overall sales trend was upward, several of the largest chains in the business stumbled badly in 1987. They included such once-successful companies as Revco, Dart, Pay 'n Save and Perry, all of whom dipped into the red inkwell in order to report the year's results. All four chains, however, were engaged in turnaround efforts that included selling major non-drug store assets and stores in weaker markets, and reorganizing management teams.

Other chains, including Peoples and Genovese, successfully handled some serious operating difficulties in 1987 and emerged in a much stronger competitive position. *(See chain profiles.)*

Major executive shifts

Difficulties experienced by a number of chains resulted in executive shifts at the highest levels. At Revco, for example, Boake Sells, the former president of Dayton Hudson, was brought in to breath new life into the faltering chain. Sells totally redrew the chain's reorganization chart and began the job of creating a lean operation responsive to customer needs.

At Perry, president David Schwartz consolidated the reins of power through an executive reorganization while the chain sold its retail auto parts business, which soured in 1987. At Dart Drug, Bud Fantle and his son Jeff headed an investment group that took control of the chain and began the Herculean task of restoring the chain's badly tarnished image with Washington, D.C.-area consumers.

One of the year's most dramatic stories involved one of the oldest names in the business, the Begley Co. The ouster of Bob Begley, the chain's chairman and president, and the charges and countercharges that emerged in the subsequent battle for control of the Kentucky chain provided a grim reminder that no top executive is safe when a company falters, not even the popular son of the founder.

Several exciting new retail formats emerged in 1987 to challenge chain drug operators. In Dallas, for example, Wal-Mart teamed with the Cullum Cos. to open an American version of the European hypermarket. Wal-Mart, which had already made powerful incursions into the drug store market with its discount stores and Dot deep discount outlets, and Cullum, a major combination store operator in Dallas, opened the first Hypermart USA, a 222,000-square-foot superstore selling everything from food, soft goods, and tires to pharmaceuticals, cosmetics, and health and beauty aids.

A second Hypermart opened a month later in Topeka, Kan., and two others were on the drawing boards. Other companies also unveiled or were planning their own versions of the hypermarket, including the partnership of K mart and Bruno's and French operators Euromarché and Carrefour.

The chains, for their part, put more sparkle and punch into their own stores. The year saw the entry of several dramatic new drug stores, including Longs' Horton Plaza unit in downtown San Diego, Peoples' "Boss" prototype in the Washington market, and SupeRx Corp.'s racetrack store in Phoenix.

All of the new store models strived for an ambiance of comfort and convenience for women shoppers and for an image as preeminent merchants of health care and beauty products.

Technology advances

In the area of technology, several chains began to invest more heavily in sophisticated point of sale systems at the cash register, including Walgreens, Longs, Eckerd, and the industry leader in POS, Rite Aid. *(See computerization article, p. 75.)*

But while these companies were moving ahead in their efforts to achieve greater checkout efficiency and at the same time to capture real product movement on a timely basis, most chains remained well behind the leaders. The industry as a whole lagged at least five years and as much as 10 behind the supermarket field in POS technology.

> *A few chains pursued aggressive growth, but the majority held back.*

Evolving character of the chain drug industry

	No. of companies			No. of stores		
Chain store size	**1977**	**1987**	**% change**	**1977**	**1987**	**% change**
Two-three-store companies	2,067	1,191	–42%	4,691	2,733	–42%
Four-10-store companies	508	388	–24	2,682	1,971	–27
11-or-more-store companies	171	128	–25	11,848	19,006	60
Totals	2,746	1,707	–38	19,221	23,710	23

Source: Chain Store Guides

Sales climb 8% at drug chains; Walgreens hits $4B sales mark

The chain drug industry weighed in with an overall sales increase of just 8 percent to $32.7 billion in 1987, but individual companies performed well above that average.

Walgreens, for example, reported a sales increase of 18 percent to $4.2 billion for the year ended Aug. 31, 1987. The industry's top-performing chain also became the first company to break the $4 billion sales barrier.

Rite Aid, the industry's fastest growing drug chain, showed a phenomenal 42 percent sales gain to $2.49 billion for the year ended Feb. 27. The hefty increase, largely the result of acquisitions made during the year, vaulted the Shiremanstown, Pa.-based chain into fourth place on the list of drug chains, behind Walgreens, Osco, and Eckerd.

Another chain that experienced robust sales increases was CVS, one of the nation's premier bantam store operators. The Melville Corp. subsidiary saw its sales jump by 18 percent to $1.39 billion for the year ended Dec. 31.

Arbor's sales up 42%

Among the smaller chains, Arbor Drug reported a 42 percent leap in sales to $215 million for the year ended July 31. Arbor's sales performance was enhanced by a 42 percent growth in store count.

The year's largest sales increase was reported by Phar-Mor, the Youngstown, Ohio-based operator of deep discount stores. Phar-Mor's total sales jumped by 59 percent to an estimated $400 million, pushing the chain into second place among deep discount drug companies behind industry leader Drug Emporium and just ahead of F & M, Chicago's rapidly growing off-price drug chain.

Phar-Mor turned in one of the hottest growth years in the entire chain drug industry, with store count soaring as it moved into new markets including Chicago, North Carolina, and other points south.

The chain drug industry as a whole continued to increase its share of the entire retail drug total, as sales of independent drug stores increased by only 4 percent during the year, according to A.C. Nielsen Co. The difference meant that chain drug stores increased their share of industry sales by a full percentage point, to 61 percent.

Top 50 American Drug Chains: 1987 Dollar Volume

Rank	Headquarters	Drug store sales (in millions)	% change	Store totals	% change	FY end
1. Walgreens	Deerfield, IL	$4,154	18%	1,356	7%	8/31/87
2. Osco Drug	Chicago	3,047	4	645	2	1/31/88
3. Eckerd (A)	Clearwater, FL	2,750	NA	1,581	(1)	1/31/88
4. Rite Aid	Shiremanstown, PA	2,486	42	2,072	31	2/27/88
5. Revco (C)	Twinsburg,OH	2,317	6	2,051	1	5/30/87
6. Longs	Walnut Creek, CA	1,772	8	229	3	1/28/88
7. Thrifty	Los Angeles	1,346E	NA	641	8	11/30/87
8. Peoples (D)	Alexandria, VA	1,396	NA	819	(1)	12/31/87
9. CVS	Woonsocket, RI	1,394	18	698	11	12/31/87
10. Pay Less NW	Wilsonville, OR	1,280E	NA	254	19	1/23/88
11. Hook-SupeRx	Cincinnati	1,090E	NA	654	NA	11/30/87
12. Thrift	Pittsburgh	879	9	407	4	1/30/88
13. Drug Emporium	Worthington, OH	800E	NA	137	22	2/28/88
14. Pay 'n Save (F)	Seattle	726	31	143	31	10/31/87
15. Perry	Pontiac, MI	550	13	222	9	10/31/87
16. Fay's (G)	Liverpool, NY	500	11	188	9	1/31/88
17. Phar-Mor	Youngstown, OH	400E	NA	80	NA	6/30/87
18. Brooks	Pawtucket, RI	396	(2)	361	(4)	1/2/88
19. K&B	New Orleans	370E	NA	148	0	9/30/87
20. F&M	Warren, MI	330	59	52	86	1/31/88
21. Medicine Shoppe	St. Louis	325	21	698	9	9/30/87
22. Genovese	Melville, NY	314	16	83	5	1/29/88
23. Big B	Bessemer, AL	249	19	183	20	1/30/88
24. Snyder	Minnetonka, MN	226	11	57	8	7/25/87
25. Arbor	Troy, MI	215	42	74	42	7/31/87
26. Duane Reade	Long Island City, NY	200	24	30	15	10/31/87
27. Marc's	Cleveland	182E	NA	12	NA	6/30/87
28. Super D (H)	Memphis	180E	NA	116	1	8/31/87
29. Rockbottom	Port Washington, NY	152E	NA	25	14	1/31/88
30. Dart (I)	Landover, MD	120	NA	83	0	7/30/87
31. Discount Drug Mart	Medina, OH	112E	20	24	9	3/31/88
32. Kerr	Raleigh, NC	109	12	82	15	6/30/87
33. Drug Fair of NJ (J)	Somerville, NJ	103	14	31	NA	7/31/87
34. Harco	Northport, AL	104E	20	72	20	7/31/87
35. Medicare-Glaser	St. Louis	101E	NA	89	(2)	3/31/88
36. Supermarkets General Drug Store Division	Woodbridge, NJ	100E	NA	32	NA	1/30/88
37. SupeRx	Phoenix, AZ	90E	NA	59	NA	2/27/88
38. LaVerdiere's	Winslow, ME	90E	10	59	0	1/31/88
39. Thrifty/White (K)	Minneapolis	86E	4	53	0	4/30/88
40. Taylor	Louisville, KY	82E	NA	45	0	9/30/87
41. Rix Dunnington	Auburnvale, MA	75	10	41	0	12/31/87
42. Bill's	Lafayette, CA	75E	NA	25	0	4/2/88
43. Standard	Richmond, VA	73	6	64	(1)	3/31/88
44. A. D. Clark	Los Angeles	73E	NA	19	0	12/31/87
45. Medi-Save	Baton Rouge, LA	67E	NA	130	NA	5/31/87
46. Wellby	Portland, ME	65E	NA	35	(1)	12/31/87
47. Kinney	Gouverneur, NY	63	7	28	7	12/31/87
48. Begley	Richmond, KY	53E	NA	43	8	3/31/88
49. Douglas	N. Providence, RI	52E	16	15	25	3/31/88
50. Bartell	Seattle	45E	14	30	11	12/31/87

A Includes nine VisionWorks optical superstores.
C Pro forma to reflect merger of Revco and Anac.
D 12 months running ended Dec. 31, 1987 in US$.
E Estimate
F Includes Bi-Mart membership discount stores.
G Includes 15 Wheels and 12 Paper Cutter stores.
H. Does not include 10 franchise stores.
I Six months ended Jan. 31, 1988.
J Includes nine Cost Cutter deep discount stores.
K Includes eight White Mart discount department stores.

Source: *Drug Store News* 1988 Chain Drug Survey

10-year sales share trends

($ sales in billions)

Year	Total sales	Chain sales	Indep. sales
1987	$53.5	61%	39%
1986	50.2	60	40
1985	47.0	60	40
1984	43.2	59	41
1983	39.7	58	42
1982	36.2	57	43
1981	33.4	55	45
1980	30.3	54	46
1979	27.2	52	48
1978	24.3	50	50

Source: A.C. Nielsen Co.

Top Canadian drug chains

Company	Headquarters	Drug store sales, latest FY (in millions $ Canadian)	% change	Store totals	% change	FY ended
1. Shoppers Drug Mart	Toronto	$1,620A	17%	586	6%	3/31/88
2. Jean Coutu	Longeuil, Quebec	522	24	102	15	5/31/87
3. Boots	Toronto	370E	NA	175	(3)	4/2/88
4. Big V	London, Ont.	211	20	92	8	9/30/87
5. Kent	Mississauga, Ont.	95	8	72	0	1/26/88

A Nine months ended Dec. 31, 1987

E Estimate

Source: *Drug Store News* 1988 Chain Drug Survey

PERFORMANCE

Drug chains diversify into younger businesses

Merchants bank on mass retail knowledge and health image in many ventures.

ECKERD MED-CARE
CONVALESCENT AIDS · SALES/RENTALS

An Eckerd home health center.

WHEELS
The Paper Cutt

Fay's operates Wheels auto parts and Paper Cutter stationery stores.

10-year drug store growth trend

Year	Total stores	Chain stores	Chain share	Indep. stores	Indep. share
1987	53,963	20,977	39%	32,986	61%
1986	52,800	19,412	37	33,388	63
1985	52,500	18,550	35	33,950	65
1984	52,139	17,677	34	34,462	66
1983	50,264	16,733	33	33,531	67
1982	49,400	16,347	33	33,053	67
1981	49,310	14,664	30	34,646	70
1980	49,192	14,815	30	34,377	70
1979	48,822	15,110	31	33,712	69
1978	49,151	14,709	30	34,442	70

Source: Chain Store Guides and Census Bureau

10-year sales trends

($ sales in billions)

Year	Total industry	% change	Total chain	% change	Total indep.	% change
1987	$53.5	6%	$32.7	8%	$20.8	4%
1986	50.2	7	30.2	7	20.0	7
1985	47.0	9	28.2	11	18.8	6
1984	43.2	9	25.5	12	17.7	5
1983	39.7	10	22.8	11	16.9	8
1982	36.2	8	20.5	11	15.7	5
1981	33.4	10	18.5	12	14.9	8
1980	30.3	12	16.4	16	13.9	7
1979	27.2	12	14.2	17	13.0	6
1978	24.3	10	12.1	16	12.2	4

Note: Chain sales are for companies with four or more stores

Source: A.C. Nielsen Co.

Top 50 American Drug Chains: 1987 Store Totals

Rank	Headquarters	1987 Total Stores	% change vs. year ago
1. Rite Aid	Shiremanstown, Pa.	2,070	31%
2. Revco	Twinsburg, Ohio	2,051	1
3. Eckerd	Clearwater, Fla.	1,581	(2)
4. Walgreens	Deerfield, Ill.	1,356	7
5. Peoples	Alexandria, Va.	819	0
6. Medicine Shoppe	St. Louis	698	9
7. Hook-SupeRx	Cincinnati	679	3
8. Osco	Salt Lake City	645	0
9. CVS	Woonsocket, RI	698	11
10. Thrifty	Los Angeles	641	8
11. Thrift	Pittsburgh	407	4
12. Brooks	Pawtucket, RI	362	(10)
13. Pay Less NW	Wilsonville, Ore.	254	19
14. Longs	Walnut Creek, Calif.	229	3
15. Perry	Pontiac, Mich.	222	9
16. Fay's (A)	Liverpool, NY	188	9
17. Big B	Birmingham, Ala.	183	20
18. K&B	New Orleans	148	1
19. Pay 'n Save	Seattle	143	31
20. Drug Emporium	Worthington,Ohio	137	22
21. Medi-Save	Baton Rouge, La.	130	NA
22. Super D (B)	Memphis	116	1
23. Medicare-Glaser	St. Louis	89	4
24. Dart	Landover, Md.	85	5
25. Genovese	Melville, NY	83	5
26. Kerr	Raleigh, NC	82	15
27. Arbor	Troy, Mich.	74	42
28. Harco	Northport, Ala.	72	20
29. Standard	Richmond, Va.	64	(2)
30. Supermarkets General Drug Store Division	Woodbridge, NJ	32	NA
31. Medicap Pharmacies	Des Moines, Iowa	63	NA
32. LaVerdiere's	Winslow, Me.	59	0
33. SupeRx	Phoenix	59	NA
34. Snyder	Minnetonka, Mn.	57	8
35. Thrifty/White (C)	Minneapolis	53	0
36. F&M	Warren, Mich.	52	86
37. Taylor	Louisville, Ky.	45	0
38. Kare	St. Louis	NA	NA
39. Begley	Richmond, Ky.	43	8
40. Rix Dunnington	Auburnvale, Mass.	41	NA
41. Wellby	Portland, Me.	35	NA
42. Drug Fair of NJ	Somerville, NJ	31	NA
43. Thayer Pharmacies	Stoughton, Mass.	30	(3)
44. Duane Reade	Long Island City, NY	30	15
45. Kinney	Gouverneur, NY	28	(7)
46. Rockbottom	Port Washington, NY	25	NA
47. Bill's	Lafayette, Calif.	25	0
48. Discount Drug Mart	Medina, Ohio	24	9
49. A.D. Clark	Los Angeles	19	0
50. Douglas	N. Providence, RI	15	25

Source: *Drug Store News* 1988 Chain Drug Survey

A Includes 15 Wheels and 12 Paper Cutter stores.
B Does not include 10 franchise stores.
C Includes 8 White Mart discount department stores.

PERFORMANCE

High-level execs trail blaze the industry in breathless pace

Dominating the news pages throughout the year were stories about people: ascensions to power, corporate reorganizations, and falls from grace.

The breathless pace of changes that took place in the executive suites reflected the turmoil that hit the industry in 1987, as overstored markets and heated rivalry for limited consumer dollars took their toll on overextended drug chains.

If it was difficult to tell the players without a scorecard, and often equally as hard to know what game was being played. But the changes made for a lively news year.

Sells

Begley

Perhaps no store elicited as much heat as the struggle for control of the Begley Co., the Kentucky drug chain that fell on hard times in recent years.

Bob Begley, chairman and son of the founder, found himself at the center of a bitter conflict involving the board's chain, the Begley family and its employees and two outside companies, Rite Aid and SupeRx Corp., bidding to take over the chain.

Diener

Hannan

In a battle over Begley Co.'s faltering performance, Bob Begley was at first relieved of his chairmanship and replaced by Lexington, Ky. businessman Tracy Farmer. Begley retained his position of president, but later was relieved of that title too, as he become embroiled, on the side of SupeRx, in the bidding war between SupeRx and Rite Aid for control of Begley. The Begley board favored Rite Aid.

Bob Begley signed a $125,000 contract with SupeRx that called for a management role in the Begley Co. should SupeRx be ultimately successful in its bid for Begley. If not successful, Begley would be involved in East Coast real estate and acquisition activities for the growth-minded SupeRx Corp.

Bob Begley was not the only victim of the turmoil at Begley. Orlando Segneri, veteran operations executive at the Richmond, Ky.-based chain, and Don Snyder, executive vp-treasurer, both left the company in the shakeup.

Months later Segneri turned up as regional vp of Revco's Eastern region, heading 430 stores.

Segneri's move to Revco was just a small part of what took place at the Twinsburg, Ohio-based chain, as Boake Sells, the new chairman and ceo, moved to consolidate power and return Revco to a pre-eminent position among American drug chains.

The changes that led to Sells' appointment began a year ago with the naming of Bill Edwards as chief executive, replacing Sidney Dworkin, the architect of Revco's rise to power in the '70s and early '80s. Though Dworkin retained his chairmanship, his power was effectively short-circuited. By midyear, the financial backers of Revco's earlier leveraged buyout were looking for a fresh approach in the struggle to turn around the chain's languid performance. They secretly began to negotiate with Sells, the president and chief operations officer of Dayton Hudson.

Sell's appointment as chairman and ceo in November

Continued on next page

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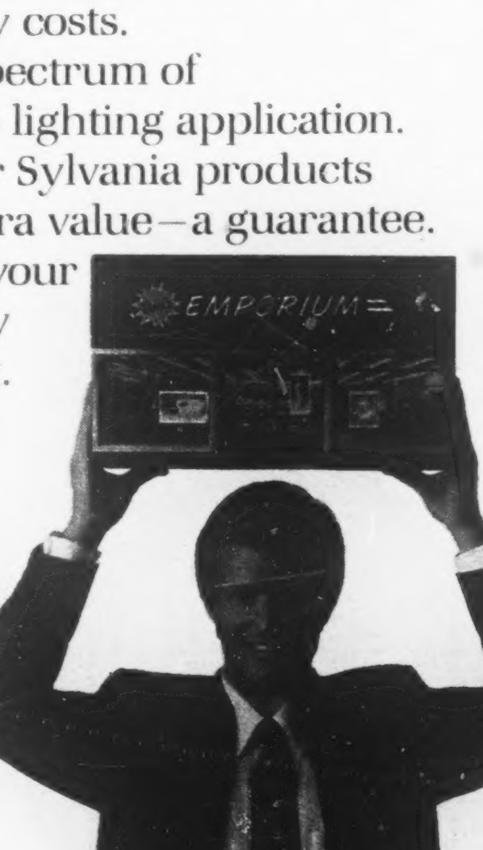

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Sylvania Consumer Services to provide help with ordering inventory, scheduling deliveries, and restocking. Sylvania Lighting Services to provide you with superior quality and cost-effective lighting for your store and parking lot.

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High-level execs *continued*

meant Dworkin's departure. Marc Dworkin, his son and the executive vp of the chain, also left.

Bill Edwards retained his president's title, but moved to a background role as Sells reorganized the corporation around his own team members. Among the changes: Carl Bellini, formerly president of Gray Drug Fair under Sherwin-Williams, was named executive vice president of stores. Jim Adamson became executive vp of marketing; Dwayne Hoven,senior vp of distribution; and Vito Cardace, executive vp-CFO.

Schwartz

Kerr

Perry was another chain that underwent a major management realignment as the company tried to fight its way back to profitability. Under a new president, David Schwartz, the drug chain was reorganized and Perry veteran Mickey Kole lost his title as president, becoming group vp.

Le Blanc

Rose

A few months later, Kole departed, and Gary Allen, a 15-year Albertson's veteran, was brought in to replace him. Then Al Wander, executive vp and chief financial officer and another Perry veteran, left the company, and Victor Melancon, who headed up MIS operations for Albertson Southco, was appointed to replace John Frazzini, vp-MIS, who had also departed.

Three chains battling for supremacy in the Washington, D.C. market, were involved in a series of executive changes reminiscent of musical chairs. Howard Diener, senior vp of purchasing at Rite Aid, left the Shiremanstown, Pa.-based drug chain, to join Peoples Drug Stores as executive vp of marketing.

Diener, who had come to Rite Aid from Dart Drug Stores, replaced Fred Edwards, who had left Peoples to join his former boss Bud Fantle as executive vp at Dart. Fantle and his son Jeff, who had become president of Dart after leaving Peoples, were joined in the new venture by Lou Schechter, a Peoples merchandising manager. Schechter was named senior vp-marketing.

There were also other key appointments during the year, including these:

- Thrift senior vp Bob Hannan succeeded Jim Armor as president of the Pittsburgh-based subsidiary of J CPenney. He also became part of a three man "Office of the President" that included Anthony Civello, executive vp-store operations, and Larry Rose, executive vp-merchandising and marketing. Rose later left to join Fay's as president.
- Timothy McAlear, former executive at Kresge and Jupiter department stores, was named executive vp at Pay Less NW.
- James LeBlanc, a 30-year veteran at K&B, was named president of the New Orleans-based drug chain.
- Jeanette Solomon, another K&B veteran, retired as cosmetics buyer, but soon joined Salle 10.
- Four executives departed or will soon depart for the National Association of Chain Drug Stores, as Ron Ziegler sought to reorganize the association after assuming the presidency. The four were Bill Welsh, Ty Kelley, George Nyhart and Hal Klawitter
- Johnny Kerr, son of chairman Banks Kerr of Kerr Drug Stores, was named president of the North Carolina drug chain.
- Gary Spielfogel, son of Sid Spielfogel, chairman of Interstate Cigar, which owns Austin Drug, the Long Island-based drug chain, was named executive vp at Austin and then early this month, president. He replaced Gary Lefferts, who left to pursue other interests.

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So for quality services go with Sylvania. We're sure you'll appreciate the support.

Our promotions are making people see the light.

There's a word we use to describe how we feel about our products. Obsessed. Which is why we go out of our way to create such aggressive promotions.

Our new multi-million dollar network and spot television campaign highlights, appropriately, our obsessive commitment to quality. It's creative, exciting, and will undoubtedly have people talking.

But if there's a potential consumer whose T.V. happens to be on the blink, our Sunday newspaper insert program will have hundreds of millions of coupons dropping into households all over the country.

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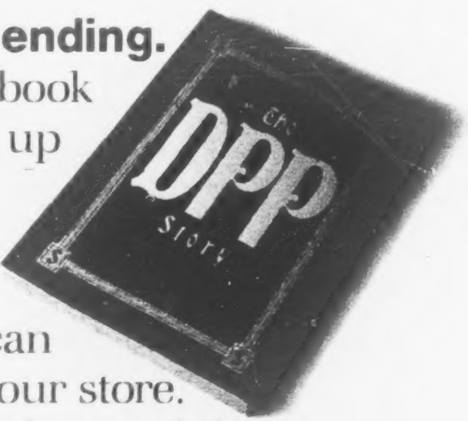

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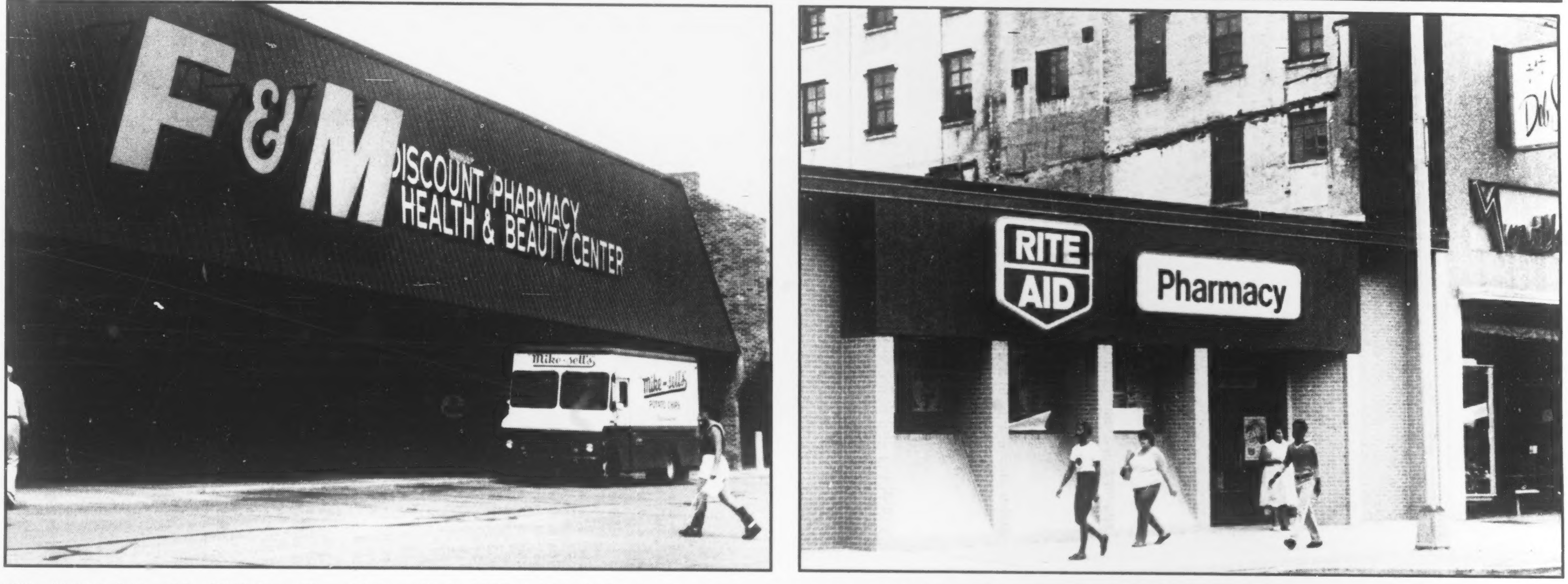
PERFORMANCE



Rite Aid (right) nabbed 356 Gray Drug Fair units in 1987, taking industry honors for the biggest acquisition of the year. F & M (left) helped its growth by buying 10 Pathmark Super Drug Stores in Maryland, New York and Virginia. F & M wants to operate at least 100 off-price drug and H&BA stores by 1990.

Many takeovers mark '87, but few were megadeals

Merger and acquisition activity heated up during the year, although the size of most transactions failed to match some of the previous year's megadeals.

One exception, of course, was Rite Aid's purchase of Gray Drug Fair, the troubled Cleveland-based chain, from Sherwin-Williams for what was considered a bargain-basement price of $115 million in cash.

In completing the purchase of Gray Drug Fair's 356 stores in nine states and the District of Columbia, the Shiremanstown, Pa.-based chain moved into the number one position in drug store count, surpassing Revco, which was moving in exactly the opposite direction by trimming store numbers.

Much of the heavy activity last year involved market fortification on the one hand and strategic withdrawals on the other. Chains sought to increase their presence in markets in which they already held a healthy share of sales, and to ease themselves out of localities dominated by others.

Longs and Osco, two of the nation's strongest chains, engaged in mutual deals that got each of them out of weaker markets and shored up their presence in primary ones.

After struggling for years to increase its penetration of Phoenix, one of the nation's hottest battlegrounds, Longs gave up the battle last year and sold 10 drug stores in that capital city to Osco Drug, a market leader. At the same time, Longs sold five Tucson stores to Osco.

For its part, Osco gave up its presence in Longs' Northern California stronghold by selling 11 stores to the Walnut Creek, Calif.-based chain. Another Osco store in Colorado was also sold to Longs.

Some of the biggest potential acquisitions of the past year were still in the fires as this publication went to press.

These included the sale of 358 Brooks stores in 10 states to Hook-SupeRx, and the sale of the Begley Co. to either Rite Aid or SupeRx Corp., the Phoenix-based company headed by former Kroger executive Gerry Wolken.

The Brooks acquisition was unusual in that it involved a geographic leap between the Midwest stronghold of Hook-SupeRx and the Northeast markets of Brooks. But Hook-SupeRx has given strong signals that it will allow Brooks to continue operating with its own identity and leadership structure. Gayl Doster is expected to move from HSI's Cincinnati headquarters to become president of Brooks when the deal is consummated.

If the Brooks deal was proceeding along classically conservative lines, the Begley buyout was the epitome of an old-fashioned brawl, with tempers flaring and lawsuits flying.

The two opposing suitors for the 43-store Begley drug chain (plus six home health stores and 140 dry cleaning outlets) were Rite Aid and SupeRx of Phoenix. Rite Aid had submitted a bid, favored by Begley's board, of $28 a share for the company's 665,000 outstanding shares. SupeRx had given an indication that it might raise the ante in the bidding war to as much as $30 a share.

For Rite Aid, the acquisition would fill out markets in its push to blanket the East from New England to Florida.

For SupeRx, an aggressive newcomer to the expansion wars, the acquisition would dramatically increase its store count.

SupeRx began its existence by buying 48 stores in Phoenix, Georgia, and Alabama from the Kroger Co., when the giant food and drug store operator decided to sell off its freestanding drug store business.

In the past year, SupeRx has added a total of 10 drug stores and three home health centers to its roster, using the deep pockets of its Phoenix-based financial backer, American Continental Corp.

Other acquisitions and mergers during the year included:

- Supermarkets General, heavily in debt from a leveraged buyout, sold its 14 Pharmacity drug stores and 11 Heartland deep discount stores in Massachusetts and New Hampshire to CVS parent Melville Corp.

  Supermarkets General also sold its Pathmark Super Drug Division, consisting of nine deep discount stores and one unfinished unit in Maryland, Virginia, and New York, to F&M, the Chicago deep discounter.
- Eckerd put 31 of its northernmost stores on the auction block, but withdrew them after failing to get its asking price.
- Pay Less purchased 24 Osco stores in Washington, Idaho, Oregon, and California. The sale took the Oak Brook, Ill.-based subsidiary of American Stores out of the Pacific Northwest and the San Francisco Bay Area.
- Revco closed or sold scores of stores in its drive to reduce its LBO debt and improve operating efficiencies, but two of the biggest blocks, the Odd Lot stores and the Carls Drug chain in upstate New York, were still unsold at press time.

The year's acquisitions

Company	Headquarters	Acquisition	Store locations
Arbor	Troy, Mich.	51% of five clinic pharmacies	Michigan
Big B	Birmingham, Ala.	15 Eckerd stores	Alabama
Eckerd	Clearwater, Fla.	Seven Revco stores	Birmingham, Ala.
		Three Arbor stores	No. and So. Carolina
Revco	Twinsburg, Ohio	Five Eckerd stores	Brownsville, Texas
Rite Aid	Shiremanstown, Pa.	356 Gray Drug Fairs	N.Y., Pa., Del., Md., Ind., Ohio, W. Va., Va., N.C., Wash., D.C.
Osco	Oak Brook, Ill.	15 Longs stores	Arizona
Longs	Walnut Creek, Cal.	12 Osco stores	California, Colorado
Melville (CVS)	Harrison, N.Y.	14 Pharmacity and 11 Heartland stores (Supermarkets Gen.)	Massachusetts and New Hampshire
Pay 'n Save	Seattle	Six G.O. Guys stores	Washington
SupeRx Corp.	Phoenix	Three Walgreens	Alabama
		Six stores and two home health units from Defender Drug One store and one home health unit from United Discount Drug	Arizona
F&M	Warren, Mich.	10-store Pathmark Super Drug Div. of Supermarkets Gen.	Maryland, Virginia, New York
Hook-SupeRx Inc.	Cincinnati	19 Eckerd stores	Virginia, W. Virginia
Pay Less NW	Wilsonville, Ore.	24 Osco stores	Washington, Idaho, Oregon, California
City Drugs	Panama City, Fla.	19 Revco stores	Texas

Source: Company reports

PERFORMANCE

Left: At Bartell, track lighting and a suspended grid highlight cosmetics. Center: Bi-Mart's newest format brings new emphasis to cosmetics with service bar and separate floor. Right: Crown's diagonal aisle improves core cosmetics exposure.

ALMAY
HEALTH CARE
4
3
MENS SHOP

New formats emphasize core drug store categories

Whether bold or subtle in design, new formats unveiled during the year shared one important ingredient: they put the emphasis back on the core drug store categories.

So often was the phrase "back to basics" used that it threatened to become a cliché. But the designs that emerged from the drawing boards were anything but cliché-ridden.

From the cool subtleties of Brooks Drug's new prototype in Plainville, Mass., to the hot colors of Peoples' "Boss" prototype, the designs reflected a strategy that put customer convenience, broad selection in key categories, and a heightened health and beauty image on top of the list of priorities.

Chains were also more willing to experiment with different store sizes. Super drug store operators Longs and Pay 'n Save, for example, both developed smaller store formats to fit special market opportunities.

Both chains chose names designed to set the smaller stores apart from the larger stores in the chain. Thus, Longs selected Longs Pharmacy for the launching of its downtown San Diego store, and Pay 'n Save opted for Pay 'n Save Limited.

Longs and Pay 'n Save were following the experiments of Thrifty and Pay Less, both of whom tried smaller formats for small market niches. But where Thrifty moved ahead aggressively with its Thrifty Jr. stores, Pay Less cut back on the growth of its Key drug stores, saying that the return did not justify further development.

If drug chains dipped into their creative bags to come up with new tricks, so too did competitors, who increasingly sought to poach on drug store turf. The competition came not only from the large combination store operators like Kroger and Giant Foods and mass merchandisers like Wal-Mart, but also from small specialty operators that featured strength in particular categories, like cosmetics (Cosmetics Centers and Woolworth Express) or stationery (Staples).

The hypermarket phenomenon, big in Europe but slow to get off the ground in this country, began to gather momentum in 1987 with the opening of Hypermart USA, a joint Wal-Mart/Cullum Cos. venture in the Dallas market.

A second hypermart opened shortly thereafter in Topeka, Kan., operated by Wal-Mart alone, and two more were slated to open this year, one of them in Arlington, Texas, also in partnership with Cullum.

Other companies weighed in with their versions of hypermarkets, including the French companies Euromarche and Carrefour. These were added to existing super stores that were almost hypermarket-like in their approach, including the ones operated by Fred Meyer and Meijers.

Chain drug store remodeling

Company	1986	1987	% of total stores, 1987
Eckerd	233	330	21%
Rite Aid	79	161	8
Walgreens	89	119	9
Pay Less NW	34	59	23
Revco	NA	41	2
Shoppers Drug Mart	NA	29	5
Thrift	20	27	7
SupeRx	NA	25	42
Medicine Shoppe	31	23	3
Taylor	11	16	36
Big B	15	15	8
Osco	22	13	2
Brooks	13	12	3
Drug Emporium	2	10	7
Genovese	8	9	11
Snyder	6	6	11
Harco	6	6	8
Boots	6	6	3
Kent	9	6	8
Jean Coutu	5	5	5
Medi-Save	3	5	4
Rockbottom	5	5	20
Hook-SupeRx	NA	5	1
Thrifty/White	4	5	10
LaVerdiere's	2	4	7
Rix Dunnington	5	4	10
A.D. Clark	1	4	21
Wellby	4	3	9
Duane Reade	4	3	10
Kinney	2	3	11
Kerr	2	3	4
Discount Drug Mart	2	2	8
K&B	2	2	1
Pay 'n Save	NA	2	1
F&M	NA	1	2
Medicare-Glaser	3	1	1
Drug Fair of NJ	NA	1	3

Source: *Drug Store News* 1988 Chain Drug Survey

Average chain drug store performance

Company	Store size	Sell space	Sales per store	Sales per sq. ft. of selling space
Duane Reade	5,000	5,000	$6.7M	$1,333
Medicine Shoppe	1,072	650	465,620	716
Jean Coutu	8,300	7,400	5.1M (Can.)	691
Shoppers Drug Mart	6,800	5,800	2.8 (Can.)	477
Snyder	11,200	8,600	4.0	461
F&M	24,000	17,000	7.4	437
Longs	25,800	18,000	7.7	430
CVS	7,000	5,200	2.0	384
Rix Dunnington	6,000	5,000	1.8	366
Kinney	8,000	6,500	2.3	346
Genovese	12,000	11,000	3.8	343
Wellby	7,000	5,600	1.9	332
Walgreens	11,900	9,500	3.1	326
Arbor	10,500	9,100	2.9	320
Drug Fair of NJ	NA	15,000	4.7	312
LaVerdiere's	6,500	5,000	1.5	305
Drug Emporium	25,000	21,000	5.8	278
Osco	21,376	16,684	4.6	275
Discount Drug Mart	20,000	17,000	4.7	275
Kent	6,000	4,800	1.3 (Can.)	275
Thrift	10,217	7,970	2.2	271
Douglas	15,000	13,500	3.5	257
Thrifty/White	—	7,500	1.9	255
Perry	10,800	10,800	2.5	229
Pay 'n Save	25,000	22,500	5.1	226
Brooks	6,250	4,800	1.1	224
Standard	5,600	5,200	1.1	219
Rite Aid	6,400	5,800	1.1	190
Big B	9,000	7,500	1.4	181
Revco	8,450	6,800	1.1	166
Kerr	9,600	8,500	1.3	156
Begley	8,000	6,800	1.2	154

Source: *Drug Store News* 1988 Chain Drug Survey

PERFORMANCE

After crash-impaired 1987, stocks recover in '88

October's stock market dive produced some dramatic losses in drug chains' stock prices, but overall, chains didn't fare too badly when compared against year-end 1986 prices.

The total value of drug chains' stock prices at the end of 1987 was down 9 percent from 1986, with 1986 values for Medicine Shoppe and Genovese Drugs adjusted for comparison purposes to reflect three-for-two stock splits in 1987.

Chains' values grew briskly during the first quarter of 1988. By March 25, they were 20 percent higher than at the first of the year, and 10 percent above the 1986 adjusted year-end value.

Chains' values grew briskly in the first three months of 1988. By March 25, they were 20 percent higher than at the first of the year, and 10 percent above the 1986 adjusted year-end value.

The rosy experience of 1988's first few months helped erase the memories of heavy hits on stock values that were part of the Oct. 19 crash. When compared with the high prices that had developed by summer, the decline after October looked precipitous.

The *Drug Store News Stock Index* showed that chains' stocks lost 32 percent of their value from Aug. 25 to Oct. 26, after the Oct. 19 crash. The Dow Jones Industrial Average lost 34 percent of its value during that time.

Although the DJIA bottomed out Oct. 19, drug chain and wholesaler stocks didn't bottom out until a week later.

Rite Aid and Genovese fared the best on a year-end to year-end comparison, with Rite Aid's price up 22 percent, and Genovese up 36 percent, against an adjusted 1986 value to account for Genovese's Oct. 7 stock split.

Longs was the only other drug chain to show a gain, up 3 percent.

Slumping earnings performances took their toll on some stocks. Perry Drugs skidded 55 percent, as the chain launched reforms to stem the skid in profits. But Perry was on the upswing again in 1988, and gained 77 percent in value from Dec. 31 to March 25.

Arbor was down 43 percent, in a year when its earnings were affected by the costs of renovating the Sentry stores it acquired. But its stock also was gaining momentum in the new year, and by March 25 was up 18 percent from 1987.

Pay 'n Save, down 37 percent, and Begley, down 26 percent, were others whose stock prices dragged as their earnings flagged. Pay 'n Save had to fight to keep its net assets to minimum levels, when its profits started to slide.

And Begley's drug store and home health care business continued to be unprofitable.

Begley's stock began a soaring climb in January this year after SupeRx and Rite Aid became engaged in a bidding war for the Kentucky chain. It closed at $29 on March 25.

Although Fay's Drug's earnings in 1987 continued to grow in a long running rebound, they were still below the chain's historic levels. Perhaps reflecting the long term picture, its price was down 29 percent from 1986. By March 25, Fay's year-end value had jumped 33 percent, after the chain posted its seventh-consecutive quarter of earnings growth.

1987 Chain drug stock performance

Company	1987 stock prices High	1987 stock prices Low	1987 stock prices Last 12/31/87	Percent change from 12/31/86	3/25/88 price	3/25/88 P/E
American Stores	$86.25	$41.50	$50.50	− 7%	$56.63	14.0
Arbor	21.75	7.25	9.75	−43	11.50	13.0
Begley	19.50	8.00	12.50	−26	29.00	NM[3]
Big B	15.50	8.75	11.38	− 2	12.63	13.0
Fay's	10.00	5.25	6.13	−29	8.13	18.0
Genovese	16.13	7.25	10.63	+36[1]	12.75	18.0
Longs	41.00	25.13	30.38	+ 3	34.63	15.0
Medicare-Glaser	5.25	1.75	2.13	−39	2.25	20.0
Medicine Shoppe	25.50	16.13	19.00	− 4[2]	26.50	20.0
Pay 'n Save	9.00	3.00	3.63	−37	3.38	NM
Perry Drug	15.38	5.25	5.50	−55	9.75	10.0
Rite Aid	46.25	28.50	36.00	+22	36.50	17.0
Walgreens	44.88	24.75	30.75	− 5	30.75	17.0

[1] Reflects adjustment to account for Oct. 7, 1987 three-for-two stock split.
[2] Reflects adjustment to account for March 24, 1987 three-for-two stock split.
[3] No meaningful figure.

Source: *Drug Store News* research

Mass merchandisers with pharmacies

Company	Headquarters	Total stores	No. of stores with Rx depts.	% of total stores with Rx depts.
K mart	Troy, Mich.	2,105A	1,063	50%
Wal-Mart	Bentonville, Ark.	1,035	525E	51
Fred Meyer	Portland, Ore.	96	94	98
Venture	St. Ann, Mo.	72	17	24
Pamida	Omaha, Neb.	167	30	18
Target	Minneapolis	323	19	6
Fedco	Santa Fe Springs, Cal.	9	9	100
Cook United	Maple Heights, Ohio	NA	NA	NA
Gold Circle	Worthington, Ohio	76	7	9
Ames	Rocky Hill, Conn.	344	6	2
White Mart	Minneapolis	8	6	75

A—K mart figures are U.S. only.
E—Estimate
Source: *Drug Store News* 1988 survey

Retail diversification of major chains

Company	Store type	Number of stores 1987	Number of stores 1988
Walgreens	Home health	4	4
	Restaurants	153	102
Eckerd	Eye care superstores	6	10
	Optical	110	81
	Express photo labs	0	64
	Home health	8	0
Rite Aid	Deep discount	25	29
	Auto parts	59	65
	Book stores	39	39
	Home health	8	0
Thrifty	Sporting goods	134	160
Perry	Home health	5	5
	Deep discount drug	8	10
	Auto parts	226	252
Peoples	Deep discount drug	9	9
	Home health	4	4
	Optical freestanding	4	5
	Eye care superstore	1	0
	Restaurants	5	0
Begley	Home health	6	6
	Dry cleaning	132	140
Big B	Home health	5	?
	Food/drug combos	5	0
SupeRx	Freestanding optical	—	8
	Deep discount drug	—	3
	Home health	—	3
Hook-SupeRx	Home health	NA	30
	Deep discount	NA	12
Fay's	Auto parts	11	15
	Optical	6	NA
	Stationery	5	12
Medicare-Glaser	Optical	8	7
	Home health	1	1
Dart	Deep discount drug	5	5
Medi-Save	Optical	1	2
Genovese	Photo supplies	1	1
Harco	Home health	11	11
	Auto parts	15	20
Snyder	Deep discount drug	1	1
Thrifty/White	Home center	1	2
	Discount dept. store	NA	8
Rix Dunnington	Home health	1	1
	Deep discount drug	0	1
Drug Fair of NJ	Deep discount drug	8	9
Marc's	Restaurants	2	NA
	Closeout	1	NA
Revco	Home health	NA	1
	Deep discount drug	NA	4
	Closeout	NA	143
Shoppers Drug Mart	Home health	14	16
	Deep discount drug	5	11
	Convenience	0	16
Kerr	Hardware	NA	1
LaVerdiere's	Arcades freestanding	NA	10
Douglas	Home health	1	1
	Eye care superstore	1	1
Kinney	Home health	NA	1
	Toy	NA	1

Source: *Drug Store News* 1988 Chain Drug Survey

PERFORMANCE

1988 drug chains'

Total corporate sales

(in millions)

Company	FY ends	'87	'86	'85	'84	'83
Walgreens	8/31/87	$4,282	$3,661	$3,162	$2,745	$2,360
Rite Aid	2/27/88	2,486	1,757	1,564	1,360	1,223
Revco	5/30/87	2,317*	2,743	2,396	2,228	1,792
Longs	1/28/88	1,772	1,635	1,480	1,376	1,214
Perry	10/31/87	726	648	552	373	285
Fay's	1/31/88	500	452	445	367	312
Genovese	1/29/88	314	271	223	220	193
Big B	1/30/88	249	210	175	148	117
Arbor	7/31/87	215	151	120	N.A.	N.A
Medicare-Glaser	3/31/87	94	86	82	77	69
Begley	3/31/87	73	70	66	61	56

*Pro forma for 52 weeks

POWER
BUYING
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Journal

Drug store units

Company	'87	'86	'85	'84	'83
Rite Aid	2,072	1,586	1,372	1,275	1,148
Revco	2,051	2,031	1,898	1,778	1,661
Walgreens	1,356	1,273	1,095	1,002	941
Longs	229	222	208	191	178
Perry	222	203	191	146	122
Fay's	185	171	143	125	102
Big B	183	150	126	114	99
Medicare-Glaser	89	86	88	101	101
Genovese	83	79	75	77	72
Arbor	74	52	43	N.A.	N.A.
Begley	40	40	42	45	43

Sales per average store

(in thousands)

Company	'87	'86	'85	'84	'83
Longs	$7,740	$7,367	$7,155	$7,203	$6,823
Genovese	3,782	3,427	3,107	2,861	2,691
Walgreens	3,063	2,769	2,765	2,609	2,379
Arbor	2,909	2,913	2,800	N.A.	N.A
Fay's	2,705	2,645	3,112	2,934	3,062
Perry	2,477	2,399	2,007	1,983	2,012
Big B	1,322	1,288	1,190	1,299	1,182
Rite Aid	1,149	1,108	1,057	1,017	1,066
Begley	1,131	1,092	1,279	1,002	1,010
Revco	1,130	1,351	1,262	1,253	1,079
Medicare-Glaser	954	920	909	760	690

Net-to-sales ratio

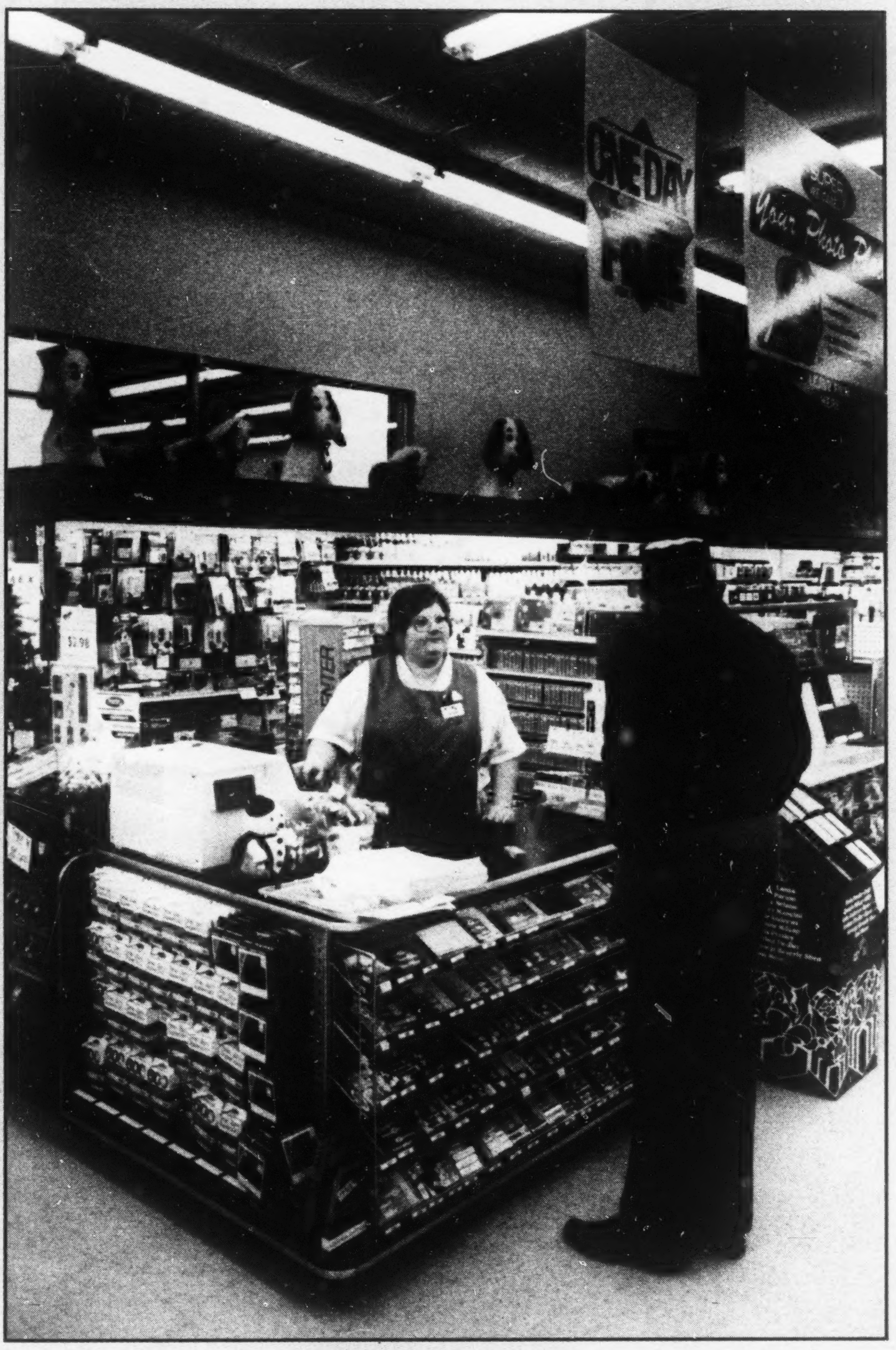
Company	'87	'86	'85	'84	'83
RiteAid	5.8%	4.4%	4.3%	4.8%	5.1%
Big B	2.9	2.1	2.3	2.9	3.0
Longs	2.8	2.4	2.5	2.9	3.0
Arbor	2.4	3.5	3.0	N.A.	N.A
Walgreens	2.4	2.8	3.0	3.1	3.0
Genovese	1.5	0.8	1.2	1.9	2.0
Fay's	1.2	0.9	0.6	2.4	2.6
Medicare-Glaser	0.6	*	0.2	3.8	1.4
Begley	**	0.9	1.4	1.2	1.4
Revco	*	2.1	1.6	4.2	3.7
Perry	*	0.9	1.8	2.1	1.6

*Reported net loss for fiscal year

**Less than 1/10 of 1 percent

Source: Company reports

financial scorecard



Net income

(in thousands)

Company	'87	'86	'85	'84	'83
Rite Aid	144,553	77,984	62,547	69,936	62,167
Walgreens	$103,537	$103,137	$94,169	$85,446	$69,789
Longs	49,218	38,594	37,718	40,094	36,387
Big B	7,300	4,470	4,039	4,442	3,471
Fay's	5,942	4,098	2,787	8,679	8,103
Arbor	5,150	5,319	3,646	N.A.	N.A.
Genovese	4,640	2,035	2,929	4,137	3,856
Medicare-Glaser	653	*	161	1,104	970
Begley	24	701	695	733	807
Perry	(7,900)	5,878	9,575	7,650	4,545
Revco	(59,509)	56,934	38,906	93,411	66,470

*Net loss for fiscal year

Gross margin %

Company	'87	'86	'85	'84	'83
Begley	35.8%	37.9%	38.0%	33.9%	33.4%
Medicare-Glaser	32.7	33.4	34.1	34.2	33.1
Perry	30.5	31.1	31.7	31.1	29.9
Walgreens	29.9	30.3	30.7	30.7	30.6
Arbor	28.8	29.2	28.3	N.A.	N.A.
Big B	30.2	29.7	29.2	29.3	29.8
Genovese	29.7	29.1	28.9	29.7	29.9
Rite Aid	28.0	28.6	28.7	29.3	28.2
Revco	N.A.	26.3	25.1	28.1	27.4
Fay's	27.8	26.8	23.7	25.5	25.6
Longs	25.3	24.1	24.2	24.0	24.6

*Expense Ratio**

Company	'87	'86	'85	'84	'83
Longs	19.8%	19.2%	19.3%	—	—
Rite Aid	20.4	19.7	19.5	17.5%	19.9%
Fay's	25.8	23.6	20.8	20.2	19.5
Revco	N.A.	21.7	21.7	19.1	19.0
Arbor	23.9	22.8	22.7	N.A.	N.A.
Walgreens	25.4	25.0	24.2	24.1	24.4
Big B	24.4	24.3	24.2	23.2	23.7
Perry	28.0	28.2	27.8	26.2	25.9
Genovese	26.8	27.5	28.1	24.7	25.0
Med. Glaser	30.3	33.6	32.9	28.9	28.3
Begley	N.M.	49.6	47.2	44.8	42.7

*Excludes depreciation and amortization costs

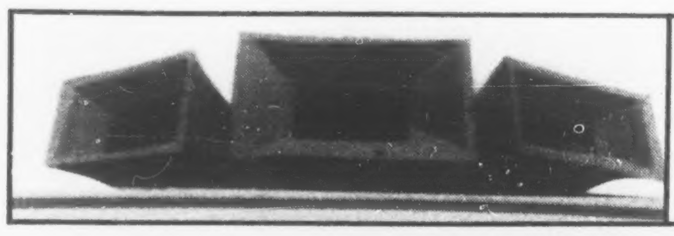
N.M. No meaningful figure

Return on shareholders equity %

Company	'87	'86	'85	'84	'83
Arbor	14.7%	24.4%	38.9%	N.A.	N.A.
Walgreens	17.6	19.9	21.0	22.3%	21.4%
Rite Aid	28.3	19.6	16.6	20.6	21.3
Longs	16.4	13.3	13.5	—	—
Big B	12.4	12.9	12.5	15.9	14.6
Revco	*	12.5	8.6	22.7	20.2
Genovese	17.6	8.1	12.7	19.3	21.3
Perry	*	7.4	13.3	12.7	11.5
Fay's	10.8	6.8	4.6	15.6	20.8
Begley	**	6.8	7.1	7.5	8.6
Medicare-Glaser	6.3	*	**	27.9	21.6

*Reported net loss for fiscal year
**Less than 1 percent

Source: Company reports



PERFORMANCE

Deep discounters flexing their store growth muscle

Pharmacy at deep discounters

Company	Total stores	No. with Rx depts.	% with Rx depts.
Drug Emporium	137	137	100%
Drug Palace	28	28	100
Freddy's	14	14	100
Rockbottom	25	13	52
Dot	12	12	100
A.L. Price	10	10	100
Rx Place	8	8	100
Joel and Jerry's	6	6	100
Get It For Less	4	4	100
Maxidrug	3	3	100
Jax's	2	2	100
Value Giant	4	2	50
Cost Cutters	9	1	11
Ike's	3	1	33
Price Less	1	1	100
Wonder World	14	0	—
Cecille's	1	0	—
Total Plus	5	0	—

Source: *Drug Store News* 1988 survey

Aggressive expansion by deep discount drug retailers marked 1987. Two of the nation's biggest chains, F & M and Phar-Mor, have been barreling into new markets, and virtually doubling their store counts.

Drug Emporium, currently the nation's highest-volume deep discount drug chain as well as the chain with the most stores, has not been as active. However, its management did open 23 stores in 1987, and they entered three new markets while continuing to cluster stores in existing markets.

Among the more active chains emerging on a regional level: Wal-Mart has been expanding its Dot stores and now has 12 in operation; Rite Aid has expanded Drug Palace to 28 stores; Melville is now up to 14 Freddy's; and Woolworth now has a total of eight Rx Places.

In Ohio, Marbal Corp. has been opening more Marc's and Bernie's.

There has also been some consolidation this year. F & M has acquired the Supermarkets General 10-unit chain of Pathmark Super Drug deep discount drug stores, and is using it as a conduit into the Northeast, particularly the major cities of Baltimore and Washington, D.C. The acquisition also gave F &M entry into upstate New York and easy access to Philadelphia.

The three top-tier chains now operate a total of 269 stores, or about 63 percent of all the deep discount stores in the country. Together, they generate approximately $1.6 billion in sales, about 67 percent of all deep discount volume.

When deep discounting first began to grow a decade ago, it belonged to small regional chains and a smattering of independents in relatively depressed economic markets like Youngstown, Ohio; Chicago; Detroit; and Cleveland.

Today, however, the deep discount concept has proven itself "viable." The dramatic growth of Drug Emporium, Phar-Mor and F & M has shown the concept is "portable" and can flourish in a wide variety of different markets.

"What we're witnessing today is a legitimization of the deep discount format," says F & M President Frank Newman.

Five years ago, most sources said there were only about 500 to 1,000 locations that could support a deep discount store. Today there are already close to 500 deep discount stores in operation, and there is a feeling that no one really knows how many more can be opened and run profitably.

Not all deep discount chains are alike, say Newman and Gary Wilber, executive vp of Drug Emporium. Each of the top three chains—F & M, Phar-Mor and Drug Emporium—target a slightly different niche. In some cases their main competitor is a food store; in other cases, they tailor their mix so they primarily attract business from drug and discount stores and from the H&BA departments of food chains.

In the top tier, Phar-Mor, with its broad merchandise mix of approximately 30,000 SKUs and its large, 40,000- to 50,000-sq.-ft. stores, is the least specialized and the most generalized. Its mix includes a broad selection of groceries and sundry general merchandise, as well as H&BA.

Drug Emporium, with its fairly limited selection of general merchandise and its heavy emphasis on pharmacy and H&BA, is the most specialized; F & M is in between.

In the second-tier chains, most sources seem to feel that the best operations, and the ones with the strongest growth potential, are the following:

- Melville's Freddy's, which currently has 14 stores in operation, and plans to open another 30 by the end of 1989;
- Wal-Mart's Dot, which now has 12 stores opened, and three to nine more planned for this year;
- Woolworth's Rx Place, which has eight stores now and hopes to open as many as eight more before the end of the year;
- Perry's A.L. Price, which has 10 stores now, and which is planning at least another three more stores this year, and possibly may open more if the right sites are found; and
- Rite Aid's Drug Palace, which has 28 stores now, and which will probably open several more before the end of the year.

The chains owned by Melville, Wal-Mart, Woolworth, and Rite Aid, all have the capital to support aggressive growth, although their parents haven't indicated this as a priority.

Other conventional drug chains have experimented with deep discounters, but most haven't gotten much further than just testing the format. Currently there is no sign that they plan to aggressively expand this concept.

Peoples has nine Bud's, but there are currently no expansion plans, and sources say Peoples has talked to several parties about selling the division. Dart Drug still runs just five Total Plus stores, but again there is talk of a possible sale of the division.

When SupeRx underwent its leveraged buyout, it sold or closed many of the stores in its then 21-unit Drug World chain. Three stores were sold to Gerry Wolken's SupeRx Corp. in Phoenix; Rite Aid bought a store in Delray Beach, Fla.; Medicare-Glaser bought a unit in St. Louis and reopened it as a Drug City deep discounter; and Kroger kept another unit in St. Louis. Hook/SupeRx now has 12 Drug World units, but has not announced any plans for their future.

Some new prototypes did emerge in 1987, but at this stage that are regarded as primarily tests of the deep discount store format. One of the hottest variations this year is the "hybrid" deep discount store, which is basically a cross between a true deep discount drug store and a warehouse/wholesale club store.

At least two new chains emerged this past year with that concept: Price Rite in Sacremento, and MedClub in San Diego.

Rix Dunnington in Brockton, Mass. also moved into the deep discount arena with the opening last November of its first deep discount drug store: Jake's Pharmacy Emporium.

And about a year ago, the Jean Coutu Group (PJC) opened its first deep discount store in this country: Maxidrug.

Top deep discounters

Company (parent)	Headquarters	$ sales (in millions)	% change	Stores	% change
1. **Drug Emporium**	Worthington, Ohio	$800	NA	137	22%
2. **Phar-Mor**	Youngstown, Ohio	400E	NA	80	NA
3. **F&M**	Warren, Mich.	330	59%	52	86
4. **Marc's**	Cleveland	182E	NA	12	NA
5. **Rockbottom**	Port Washington, NY	175E	NA	25	14
6. **Freddy's** (Melville)	Woonsocket, RI	95	39	14	27
7. **Howies** (SDM)	Toronto	55E	NA	12	9
8. **Drug Palace** (Rite Aid)	Shiremanstown, Pa.	49E	NA	28	17
9. **Dot** (Wal-Mart)	Bentonville, Ark.	46E	NA	12	100
10. **Rx Place**	New York	44E	NA	8	100
11. **Drug World** (SupeRx)	Cincinnati	40E	NA	12	NA
12. **Cost Cutters** (Community Distributors)	Somerville, NJ	39	10	9	13
13. **Drug Castle** (Brown)	Springfield, Ohio	38E	NA	10	45
14. **A. L. Price** (Perry)	Detroit	36E	NA	10	20
15. **Wonder World** (Pay Less NW)	Wilsonville, Ore.	30E	NA	14	0
16. **Bud's** (Peoples)	Alexandria, Va.	29E	NA	9	0
17. **Value Giant** (Pay Less NW)	Wilsonville, Ore.	25E	NA	4	100
18. **Joel and Jerry's**	Largo, Fla.	22E	NA	6	20
19. **Jax's** (Stonegate Trading)	Hudson, Ohio	17E	NA	2	0
20. **Get It For Less** (Revco)	Twinsburg, Ohio	17E	NA	4	0
21. **Total Plus** (Dart)	Landover, Md.	17E	NA	5	0
22. **Ike's** (Malone & Hyde)	Memphis	16E	NA	4	100
23. **Cecille's**	Detroit	15E	NA	1	0
24. **Maxidrug** (Coutu)	W. Springfield, Mass.	10E	NA	3	NA
25. **Price Less**	Sacramento, Cal.	8	NA	1	0

E Estimate

Source: *Drug Store News* 1988 survey

Combo operators rely on convenience and glamour

Kroger
Food & Drugs
open 24 hrs

Kroger leads the combo field in pharmacy presence as it closes in on the 500 prescription counter benchmark.

Supermarket chains with pharmacies

Company, headquarters	Total Stores	No. of stores with Rx departments	% of total stores with Rx departments
1. Kroger, Cincinnati	1,052	482	46%
2. Safeway, Oakland, Cal.	1,175	288	25
3. Albertsons, Boise, Idaho	460	172	37
4. American Stores, Salt Lake City, Utah	1,590	NA	NA
5. Supermarkets General, Woodbridge, NJ	140	128	91
6. Lucky Stores, Dublin, Cal.	483	97	20
7. Giant Food, Landover, Md.	144	93	65
8. Shop Rite, Wakefern Foods, Elizabeth, NJ	181	84	46
9. Smith's Management, Salt Lake City, Utah	90	81	90
10. H. E. Butt, Corpus Christi, Texas	151	73	48
11. Raley's, Sacramento, Cal.	53	52	98
12. Furr's, Lubbock, Tex.	121	50	41
13. Vons Value Centers, El Monte, Cal.	193	49	25
14. Farm Fresh, Norfolk, Va.	67	43	64
15. Tom Thumb Page, Dallas	68	38	56
16. Randall's, Houston	40	34	85
17. Grand Union, Elmwood Park, NJ	308	33	11
18. Wegman's, Rochester, NY	39	31	79
19. A&P Supermarkets, Montvale, NJ	1,200	31	0 .25
20. Stop & Shop, Quincy, Mass.	113	22	19
21. Smitty's Super Valu, Phoenix, Ariz.	22	18	82
22. Ericson's Food, Hudson, Wis.	14	14	100
23. Carr's Quality Centers, Anchorage, Alaska	13	13	100
24. Dahl's, Des Moines, Iowa	13	13	100
25. Foodway, Fayette, Ala.	27	12	44
26. Bruno, Birmingham, Ala.	122	11	9
27. Sack 'n Save, Minyard's, Coppel, Tex.	11	7	64
28. Dierberg's, Chesterfield, Mo.	11	5	45
29. Randall's, Mitchell, SD	27	4	15
30. Smithy's, Springfield, Mo.	4	3	75
31. Roundy's, Pewaukee, Wis.	198	1	0. 5
32. Sentry Markets, Waukesha, Wis.	85	1	1

Source: Drug Store News 1988 survey.

The past year has been a heady one for the combo store format. In market after market, supermarket chains revitalized their marketing and sales efforts with new, glamorous, food/drug prototypes that combined an appealing shopping environment with the convenience of one-stop shopping.

More than ever, supermarket retailers are committed to the food/drug format as the expansion vehicle of choice. Said Charles Collings, president of combo pioneer Raley's in Sacramento: "We feel we have to have a pharmacy to have a complete store. It's part of our overall concept from the beginning, anywhere we open."

"We try to open with a pharmacy wherever we open a new store," added a spokesperson for Vons.

Recent months have also seen an upsurge in supermarket chain consolidation through mergers and acquisitions, so that the retail pie is being sliced not only in larger pieces, but in different ways. The result: enormous gains in market penetration and geographic reach by some supermarket retailers like Vons Companies, and a wholesale cutback in market penetration by former giants like Safeway Stores.

Either way, the forces of consolidation and expansion mean powerful competition for the chain drug store industry. Safeway, for instance, abandoned some of its biggest markets over the past year, along with more than 150 stores with pharmacies. But a host of other supermarket and combo store operators have leaped into the vacuum by snapping up former Safeway locations, including Cullum Cos., Albertson's, Vons, Bormans, and Minyard.

In most cases, the change could spell new problems for local drug store competitors in markets like Dallas/Ft. Worth, Oklahoma City, and Kansas City, as the drug chains and independents shift strategies to deal with new, perhaps more powerful adversaries unburdened by the problems that dogged Safeway. To many, it must seem like fighting against the mythological Hydra: cut off one head, and two new ones grow instantly in its place.

"We knew what we were up against with Safeway," noted one chain drug executive. "If an operator comes in with a more aggressive pharmacy marketing program, we might have a tougher time against them."

Safeway's market retreat may alter the balance in many markets over the next year. Vons, for instance, will become the undisputed leader in the nation's biggest combo store market with its purchase this year of Safeway's 172-store Southern California division, which includes 34 in-store pharmacies. In the same region, American Stores' planned purchase of Lucky Stores would boost market penetration and expansion opportunities for its own Skaggs/Alpha Beta combo format.

Lucky has already developed its own new combo prototype, a 60,000-sq.-ft. powerhouse called Advantage, and is preparing to debut the concept in San Diego this month. The chain already operates 92 combos, with plans to open another 30 within a year.

In St. Louis, meanwhile, National Supermarkets boosted its strength with the purchase last year of 26 Kroger supermarkets and the expansion of its in-store Kare Pharmacy network. St. Louis, in fact, has become a battleground between two powerful combo store operators, National and Schnuck's, intensifying competition for local drug chains like Walgreens and Medicare-Glaser.

"All our new stores will have Kare pharmacies from now on," noted Jerry Callahan, director of pharmacy operations for National. "There is more profit for us in H&BA and general merchandise than in food, and we want to use our pharmacies themselves as profit centers rather than just traffic builders."

Many supermarket retailers have come to the same conclusion. The result has been the rapid expansion of the combo format in all parts of the country.

In the hotly-contested Florida market, for instance, Publix is beginning to open its own combo prototype, eroding a longstanding hands-off relationship with Eckerd Drug. Florida is also a target for new expansion by Albertson's and other combo operators.

In nearby Alabama, Bruno's flexed its marketing muscle last fall by purchasing Big B's five B-Mart combos and pursuing its own expansion plans for greater Atlanta. Bruno's also entered into an agreement to develop hypermarkets in partnership with K mart.

Farther to the north, Giant Food opened 11 more of its powerful food/-drug stores over the past year in Maryland and Virginia, with another eight in preparation stages. Giant, which has a strong share of the Washington, D.C. and Baltimore markets, also continues an aggressive remodeling and renovation program on older stores.

In Minneapolis, meanwhile, Rainbow Foods has begun opening pharmacies in its upscale food warehouse stores, offering prescriptions at a steep discount.

Out west, Albertson's is projecting capital expenditures of $1.3 billion over the next five years, most of it on superstore and combo store expansion. The chain will enter Phoenix next year with six new 60,000-sq.-ft. combos.

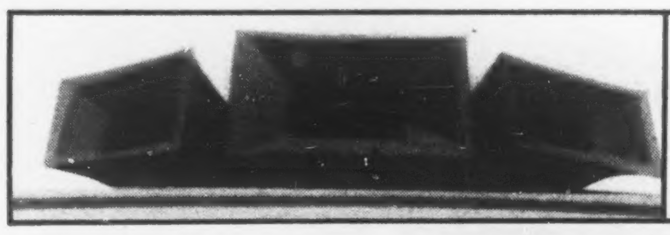
Southern California also saw the merger of Thrifty Jr. stores with Ralphs Grocery Co.'s Giant superstores in four locations in recent months, as well as the expansion and upgrading of Vons' ultra-modern Pavilions combo concept.

In Northern California, Raley's, Albertson's and other chains have accelerated expansion plans in Sacramento and elsewhere; Raley's is moving steadily toward the Bay Area.

Kroger, the nation's leader in combo retailing, has invaded several markets in the past year with its new "store of the '90s" prototype. At more than 60,000 sq. ft., the stores offer upgraded selections of greeting cards, cosmetics and fragrances, pharmacy-related products and other departments in a dramatic, high-service setting.

Kroger has already opened the new units in Cincinnati, Memphis, Indianapolis and other markets.

In another development, Massachusetts became the last state to throw down barriers to combo store retailing in 1987 when it overturned regulations governing the operation of pharmacies and supermarkets under the same roof. The change in law has opened the door for combo expansion in that state, and retailers like Purity Supreme, Stop & Shop and Star Market are preparing new food/drug formats.



PERFORMANCE

Drug chains take stock of warehousing problems

Warehousing chain drug stores continued to concentrate on upgrading their distribution center facilities in 1987.

The product mix in the average chain warehouse remained about the same, but this year the emphasis was on improving the flow of information so chains might achieve better turns and higher in-store stock service levels.

In the past, many chains have been plagued by severe out-of-stocks because of problems with their warehouse systems, but this year chains seem to be getting better at warehousing. The problems that had once plagued some of the major chains like Peoples, Dart, Eckerd and Revco have somewhat alleviated.

Sources at Peoples Drug, for example, say their problems with their warehouse systems have been virtually eliminated. Stores reported being better serviced by their warehouses.

This year the emphasis was on improving the flow of information so chains might achieve better turns and higher in-store stock levels.

Buyers rejoiced; the worst of their problems seemed to be over.

Peoples first ran into severe difficulties in 1985 when it opened a new computerized warehouse in Fredericksburg, Va. Peoples paid several million dollars for a new computer system meant to automate the warehouse, sources said, but for much of the first year of operation, the system wasn't working properly, and stores were consistently left with serious holes in their inventories.

Peoples management said that part of the problem was that the warehouse opened at a very low capacity, about 10 percent of its estimated volume. Today, the warehouse is operating at about 90 percent of capacity, and the computer systems that run the warehouse have been "debugged."

Eckerd Drug, too, has had its problems running distribution centers efficiently. Earlier this year, the chain announced it would close one of its seven facilities: its 228,000-square-foot center in Hammond, La.

Management said the closing would help the chain improve its "efficiency" in servicing its stores. The 165 stores that the Hammond unit had serviced will now be serviced by three DCs in Atlanta, Houston, and Dallas.

One source said the closing was a form of "consolidation" for Eckerd. "They've eliminated the expense of running a major facility," he said, "and they're now using three centers instead of four to service their stores. Assuming the three centers were under-utilized and have the capacity to service the stores efficiently, it should be a good move."

According to sources, the average drug chain hasn't been able to operate its warehouses as consistently as drug wholesalers.

The higher volume drug wholesalers can generally maintain a 92 percent to 98 percent in-store service level for their customers, but most chain drug warehouses, sources say, operate around an 80 percent or lower rate.

There are exceptions, however. The warehouses run by Walgreens, CVS and Rite Aid stores are considered way above average for the industry, and sources say their stores are seldom ever out of stock on any warehouse item.

Last year, CVS opened its first warehouse facility outside the East Coast: a 190,000-square-foot facility in Rancho Cucamonga, Calif. CVS's management says the new facility can probably support CVS's expansion in its California markets for at least another five years.

Delivery time has been shortened at these stores from seven days to five, but most stores are still getting just one delivery a week.

"We basically traded off hauling expenses for the expense of warehousing in California," said one source.

CVS now has 49 stores in California, and plans to open another 100 stores over the next five years.

CVS also plans to open another warehouse in New Jersey, either later this year or early in 1989. The new facility will be about 400,000 square feet, and will be able to service about 200 more stores within a radius of about 150 miles.

Management says CVS isn't planning to add any new technology to its new warehouse. "Our systems are pretty advanced," said one source, "and we're at the point where we're getting what we need." CVS currently moves close to 90 percent of its entire merchandise mix through its warehouses.

Walgreens, with a broader mix than CVS, moves about 70 percent of its products through its six warehouses.

The average warehousing chain moves between 60 percent and 70 percent of its mix through its own warehouses, and sources estimate the average chain warehouse turns its inventory about four or fives times a year.

CVS and Walgreens have not revealed how often they turn their inventories, but some sources estimate they probably turn them about eight or nine times a year. CVS could get as many as 10 or 11 turns a year, one source estimated.

Sources say, however, that the deep discount chains that warehouse have the highest turns. This is because their warehouses don't really stock product—they just break large shipments down into smaller shipments that then are sent out to all their stores.

F & M operates this way, and so does Rock Bottom and Duane Reade.

Duane Reade and Rock Bottom are both currently handling approximately 85 percent of the mix in their stores from their warehouses. Rock Bottom currently has a 200,000-square-foot warehouse facility. Duane Reade has invested funds to enlarge its 130,000-square-foot warehouse by an additional 30,000 square feet.

Many drug wholesalers can maintain a 92-98 percent in-store service level; for most chain warehouses it's 80 percent or lower.

Sources say all the warehouses operated by these chains are completely computerized. "We use computers to receive the product," said a Duane Reade source, "to keep track of where we put it in the warehouse, and to record the movement when we sent it out." Computers also handle all returns, and keep track of all price changes and other important types of information.

Some conventional drug chains also use at least some of their warehouse facilities strictly for distributing promotional and seasonal product.

These warehouses don't stock any product year-round. Instead, they accept deliveries by the truckload or rail car and break them down into smaller cases to be shipped into their stores. These facilities literally turn their product overnight. Longs Drug in Walnut Creek, Calif. uses such facilities, and so does Brooks Drug in Pawtucket, R.I.

Except for CVS opening its California warehouse and beginning construction on another New Jersey facility, there hasn't been too much expansion of chain drug warehouses in 1987.

However, Thrifty Drug announced that it will soon begin construction on two new distribution facilities: both will be about 400,000 square feet, and both will be located in San Bernadino County.

Thrifty plans on using one of the facilities for its drug stores and the other one for its chain of Big 5 sporting goods stores.

Top drug chains in warehousing

	1987			1988		
Company	No. of DCs	Total. sq. ft.	% handled thru DCs	No. of DCs	Total. sq. ft.	% handled thru DCs
Eckerd	7	2.8M	NA	7	2.8M	90%
Revco	9	2.8M	90%	9	2.6M	86
Walgreens	6	2.3M	70	6	2.3M	70
Peoples	7	1.6M	80	7	1.6M	80
Thrifty	3	1.3M	85	3	NA	NA
Rite Aid	4	1.1M	89	6	1.6M	88
Pay Less NW	2	1.0M	70	2	1.2M	78
Osco	2	1.0M	NA	4	986,257	58
CVS	2	NA	85	3	NA	NA
Wellby	2	600,000	NA	2	800,000	NA
Perry	3	762,000	56	2	712,000	NA
Dart	1	600,000	60	1	680,000	NA
Pay 'n Save	4	753,000	NA	3	589,500	80
Brooks	1	350,000	90	2	500,953	82
Kent	NA	NA	NA	2	500,000	70
K&B	2	480,000	85	2	480,000	85
Hook-SupeRx	NA	NA	NA	1	415,500	85
Snyder	1	360,000	85	1	358,000	85
Big B	1	240,000	70	1	240,000	70
Rockbottom	1	200,000	85	1	200,000	85
Genovese	1	155,000	60	1	160,000	60
Jean Coutu	1	180,000	58	1	150,000	55
Duane Reade	1	130,000	80	2	145,000	85
Harco	1	135,000	60	1	135,000	60
Kinney	1	118,000	95	1	125,000	85
Medicine Shoppe	3	100,000	NA	3	120,000	8
Standard	1	116,000	79	1	116,000	78
Kerr	1	128,000	60	1	108,000	65
Begley	1	90,000	50	1	105,000	72
F&M	1	77,000	NA	1	100,000	NA
LaVerdiere's	1	90,000	NA	1	90,000	NA
Drug Fair of NJ	1	81,000	NA	1	87,000	50
Discount Drug Mart	1	91,000	60	1	87,000	60
Taylor	1	100,000	NA	1	80,000	80
Rix Dunnington	2	75,000	50	2	75,000	50
Medicare-Glaser	1	75,000	70	1	77,000	*
Arbor	1	60,000	70	1	60,000	70
Big V	1	60,000	30	NA	NA	NA
Douglas	NA	NA	NA	1	33,000	10
Bill's	1	NA	30	1	30,000	25
Medi-Save	1	20,000	80	1	20,000	80

*Medicare-Glaser DC handles 95% of Rx and 55% of OTC merchandise.

Source: *Drug Store News* 1988 Chain Drug Survey

PERFORMANCE

Chains score breakthroughs in retail automation

For even the smallest drug chains, automation has become a buzzword in the 1980s. More than two-thirds of all drug chains will have chainwide pharmacy computers in operation by the end of the year, according to a recent *Drug Store News* survey, and many will also have converted their front-end checkstand registers to fully automated point-of-sale systems.

The benefits that pharmacy computers have conferred on the profession are undisputed. Even chains that held off for many years on pharmacy automation—Osco is one example—are now moving quickly to install the systems chainwide. Osco, for instance, extended pharmacy computers quickly to 400 stores last year, and CVS also topped off installation efforts.

Other drug chains which moved into pharmacy automation early are going back in with upgraded systems, convinced that the benefits will far outweigh the costs. Perry Drug Stores is one; at the company's recent annual meeting, chairman Jack Robinson announced plans to install new Rx computers chainwide along with automated, scannable POS systems.

The benefits of front-end automation are also well known, but not as easily understood by many retailers. POS systems' benefits include faster checkouts, tighter inventory control, labor savings with the elimination of price stickering, and reduced theft, but many drug chains aren't prepared to take advantage of such a tool. For one thing, the new systems can generate an unprecedented flood of information on sales for every item in the store. Many chains simply aren't yet set up to digest such a flood, however.

In the right hands, the information flow will be a major boon to improved operations and streamlined merchandise control. With the proper host computers and management information systems in place, the flood of data generated by POS systems can be channeled in a host of ways to provide retailers with an astonishingly accurate picture of item movement, department-by-department turns and profitability, effectiveness of promotions, and other occurrences.

Such a detailed picture can be used for maximum effectiveness in planogramming, in planning sales activity, in controlling inventory costs, in phasing out unprofitable SKUs, and in keeping shelves well-stocked.

"Distilling the data we get is the key to success," noted an exec with Perry Drug, which has extended its test of front-end scanners to six units.

"The scanners in our test store are giving us so much information that it will take us months or years to figure out what to do with it," added one MIS executive. "But the uses of that information to our store operating and merchandising procedures are limitless."

Despite the obstacles, most of the nation's major drug chains have thought through their objectives for POS automation, and many are well on the way to chainwide POS installation. In most cases, drug chains are working with scanner-ready checkout terminals while holding off on scanners themselves for the time being.

Often, the front-end systems are linked to computers in the pharmacy or to host computers in the store manager's office, thus creating integrated store automation packages linking stores with headquarters for greater central support and control.

Over the past year, the industry has taken some decisive steps toward total retail automation. For automation leaders like Walgreens, Rite Aid, Thrifty and Pay Less NW, the result is the beginning of an unprecedented integration of all aspects of store and pharmacy operations.

Among recent efforts, the following stand out:

- Walgreens unveiled SIMS, or Strategic Inventory Management System, and kicked off its first marketwide test of front-end scanning in Fort Wayne, Ind. "I can't overemphasize how vital SIMS is to the future of Walgreens," said chairman Charles Walgreen III. "Through it, we will design and build new systems to maximize our efficiency in buying, distributing, displaying and selling merchandise."
- Revco D.S. extended a year-long scanning test involving both IBM and AT&T computer systems and various types of scanners. The chain also upgraded MIS capabilities and point-of-sale tracking to target needed improvements in store sales and the merchandise mix.
- Fay's, which has already installed electronic data capture checkout chainwide, began a test of scanners.
- Thrifty Corp. continued its three-year project to install computers and POS systems in all 800 stores. The program "will increase the accuracy of pricing, speed checkouts, improve inventory control, and enhance knowledge of consumer buying patterns to allow more responsive advertising and merchandising practices, among other benefits," the company noted in its recent annual report.
- Arbor Drugs unveiled Arbor Plus, a new prescription drug PPO which draws on the company's Arbortech pharmacy system, which has been in place chainwide for a decade.

Point-of-sale and scanning at drug chains

Company	Total drug stores	With POS		With scanning	
		No.	%	No.	%
Osco	645	645	100%	125	19%
Rite Aid	2,070	619	30	619	30
Hook-SupeRx	679	343	51	7	—
Pay Less NW	254	254	100	57	22
Eckerd	1,581	225	14	2	—
Brooks	362	100	28	9	2
Big B	183	84	46	84	46
Dart	85	55	65	0	0
Thrift	407	38	9	38	9
Kent	72	27	38	0	0
Drug Fair of NJ	31	31	100	2	6
Shoppers Drug Mart	586	19	3	19	3
Pay 'n Save	143	18	13	18	13
F&M	52	9	17	9	17
CVS	698	3	—	3	—
Longs	229	2	1	2	1
Genovese	83	2	2	2	2
Snyder	57	1	2	1	2
Peoples	819	0	0	11	1
Kinney	28	0	0	4	14

Note: Walgreens, Thrifty and Perry are testing systems.

Source: *Drug Store News* 1988 survey

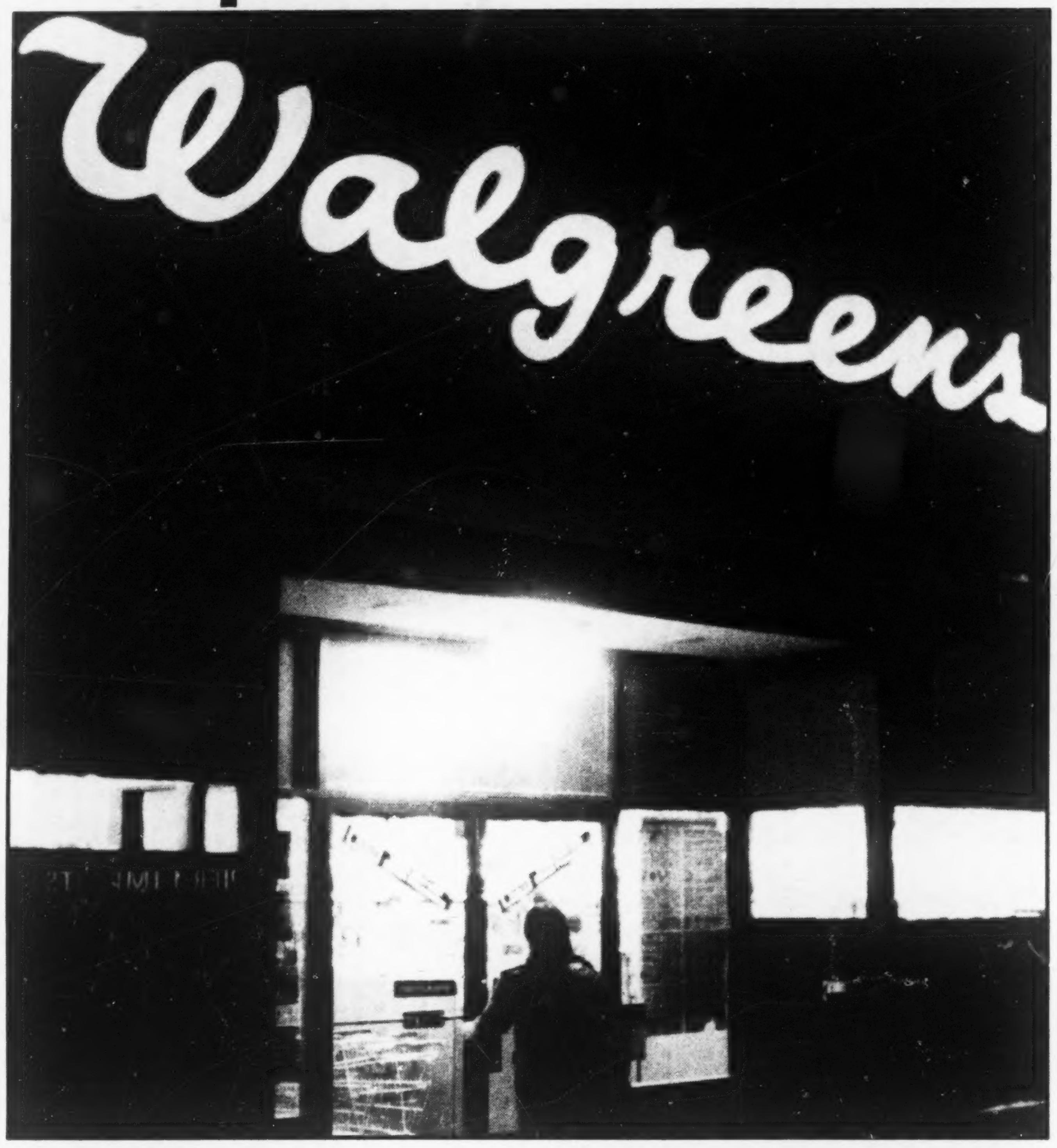
Pharmacy computers in chain drug stores

Company	1987		1988	
	No. of stores	% of total	No. of stores	% of total
Eckerd	1,500	92%	1,581	100%
Rite Aid	825	52	1,537	74
Walgreens	1,217	96	1,300	96
Thrifty	464	78	641	100
CVS	250	40	491	70
Peoples	NA	NA	450	55
Osco	NA	NA	400	62
Thrift	371	95	387	95
Medicine Shoppe	300	47	350	50
Pay Less NW	200	91	254	100
Shoppers Drug Mart	195	35	254	43
Longs	222	100	225	98
Perry	210	100	222	100
Big B	153	100	183	100
Brooks	NA	NA	165	46
Fay's	153	100	161	100
K&B	120	82	148	100
Drug Emporium	30	25	137	100
Medicare-Glaser	85	91	89	100
Jean Coutu	85	96	102	100
Hook-SupeRx	NA	NA	100	15
Genovese	79	100	83	100
Kerr	70	100	82	100
Arbor	51	100	74	100
Big V	60	71	NA	NA
Boots	NA	NA	73	42
Harco	45	75	72	100
Snyder	55	100	57	100
Thrifty/White	22	42	51	96
Standard	45	67	46	72
Taylor	45	100	45	100
Begley	43	100	43	100
Rix Dunnington	32	76	35	85
Kent	13	18	35	49
LaVerdiere's	21	35	30	51
Supermarkets General Drug Store Division	45	69	30	94
Phar-Mor	21	95	NA	NA
Kinney	30	100	28	100
Bill's	2	8	25	100
Discount Drug Mart	22	100	24	100
Drug Fair of NJ	21	100	22	100
Duane Reade	5	19	16	53
Pay 'n Save*	73	52	NA	NA
Douglas	NA	NA	15	100
F&M	NA	NA	11	21
Pic 'n Save	7	17	NA	NA

* Pay 'n Save plans to be equipped chainwide by 5-1-88.

Source: *Drug Store News* 1988 Chain Drug Survey

Walgreen Co. to spend $160 million for expansion



"Our objective is to open 100 stores a year," says chairman Charles Walgreen, III.

DEERFIELD, Ill. — When Wall Street came crashing to earth last October, and the nation's economy shook in its aftermath, Walgreen Co. barely broke stride. Instead, its top executives battled recessionary fears head-on by drawing up plans to spend a record $160 million this year for expansion and modernization efforts, a 30 percent increase in expenditures over prior-year levels.

In January, the chain also revealed plans to remain on a fast-growth track "across America", in the words of its chairman, Charles Walgreen III. "Our objective is to open 100 stores a year for the foreseeable future, and also pursue good acquisitions—ones that fit our growth strategy and store profile," Walgreen told shareholders at the company's annual meeting.

The chain has been in high gear for more than three years, adding more than 400 new stores, cracking the New England market with its purchase of Medi Mart, boosting its strength in dozens of major markets, and growing its store base by a third, to nearly 1,400 units. It has also remodeled more than 100 stores a year to stay in retailing's front ranks.

Walgreens also continues to outpace the drug store industry in sales and profitability, ending fiscal year 1987 with $4.2 billion in sales, and net earnings of $103.5 million. A major part of that comes from its prescription business, the largest in the U.S. Rx sales at Walgreens grew nearly 30 percent last year, to $1.1 billion.

A half-billion bucks for expansion

In all, the chain has spent more than $500 million over the past five years to expand its market reach from coast to coast, boost market share around the country, modernize marketing and operations, and improve store decor, layout and merchandising.

Those expenditures have borne a lot of fruit. With the Medi Mart purchase, Walgreens was able to crack an entire new region with a strong initial market presence in Boston and elsewhere, and provide a base for future expansion. Company president Fred Canning predicted the opening of as many as 100 new stores in the Northeast in the next few years, adding: "The real problem now with that market for us is that we're shipping out of our Orlando warehouse to supply the former Medi Mart stores, and it's costing us about two percentage points in gross profits in those stores. We need a distribution center there."

In many other markets, meanwhile, the chain has boosted its presence and economies of scale with new stores and acquisitions.

"With our store growth and strong merchandising efforts, we increased penetration in 19 of our top 20 markets last year, and in 80 percent of all Walgreen markets around the country," said Walgreen. "Today, Walgreens ranks first or second in 38 of our top 56 markets."

The $160 million in capital outlays this year will go into new stores, possible acquisitions and retail technology, including the expansion of its Walgreen Information Network (WIN). The WIN program, which will link stores, offices, distribution centers, and photofinishing labs under a computerized communications and processing umbrella, will be in place chainwide by the early 1990s, according to the company. When it is, it will give store managers and headquarters merchandising and operations executives a powerful new tool for boosting profitability and speeding decision-making.

POS 'WINs' out

WIN also provides a technology and communications base for point-of-sale systems, including checkstand scanning. Walgreens has begun installing scanners in its stores in Fort Wayne, Indiana, with eventual plans for a chainwide rollout within the next four years. The goals, according to executives, will be faster checkouts, firm control of prices from the register, improved inventory control and labor savings.

"WIN's most visible application is point-of-sale scanning," Walgreen said. "Scanning was tested in Chicago this year and productivity gains were impressive."

Walgreens is also investing millions in its new Strategic Inventory Management System, or SIMS. The system is designed to reduce inventory levels at every point in the distribution of merchandise within the company through maximum efficiency in buying, distribution, display, and allocation of product in the stores.

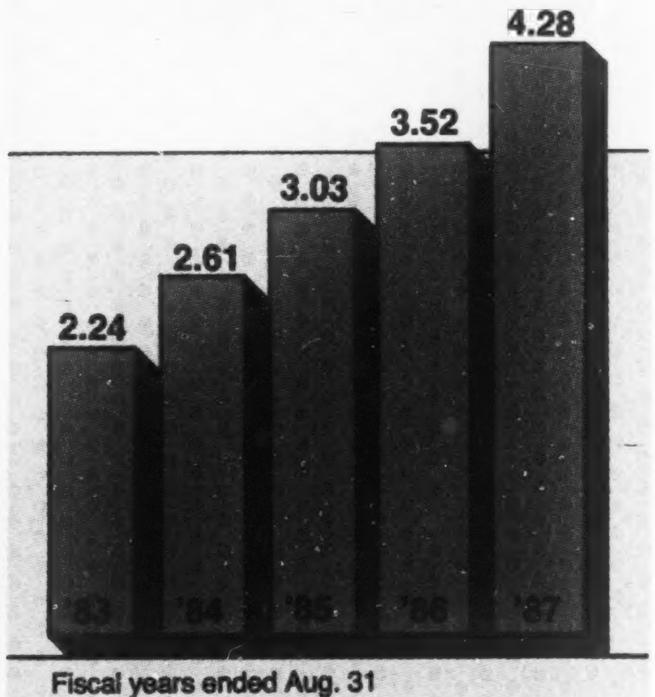
Walgreens' bold growth strategy in the face of an uncertain economy befits its position as the nation's leading drug chain. At the same time, however, the chain's decision to spend record amounts on store expansion, expensive new retail technology, and store modernization is an acknowledgement that tough times call for tough and aggressive measures.

A defensive growth posture

That is as true for Walgreens—which is committed to maintaining a leading or dominant position in many of the nation's biggest markets coast to coast—as it is for any small, beleaguered regional retailer. Walgreens' aggressive growth posture and commitment to high-tech retailing are a defense against a host of new competitive forces as well as an opportunistic move to capitalize on its own market strength and image.

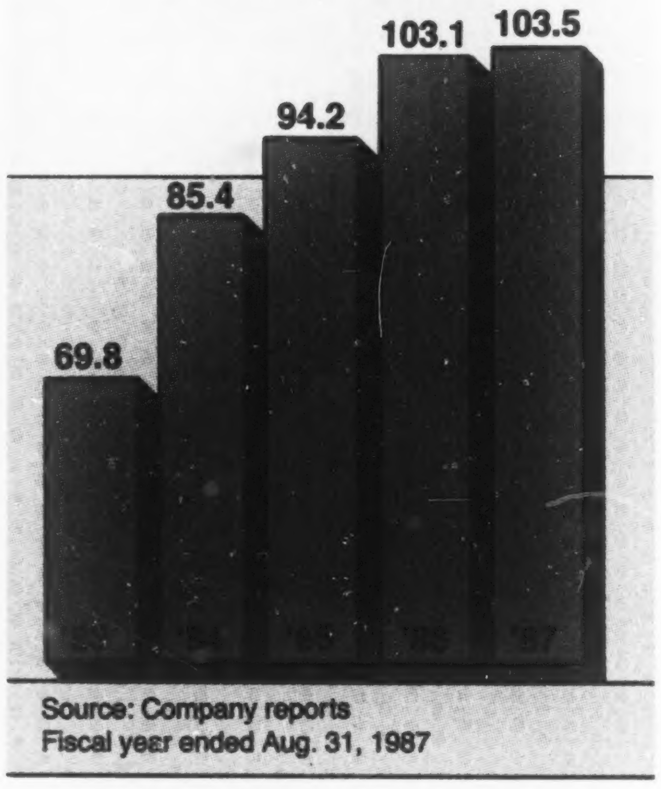
Walgreens' chairman admitted as much, predicting the $4 billion drug chain "will have the wind more in our face that at our back in the years ahead." He also downplayed the significance of a 42 percent jump in net earnings in the first quarter of fiscal 1988.

Walgreens' total sales pace industry
(in billions of dollars)



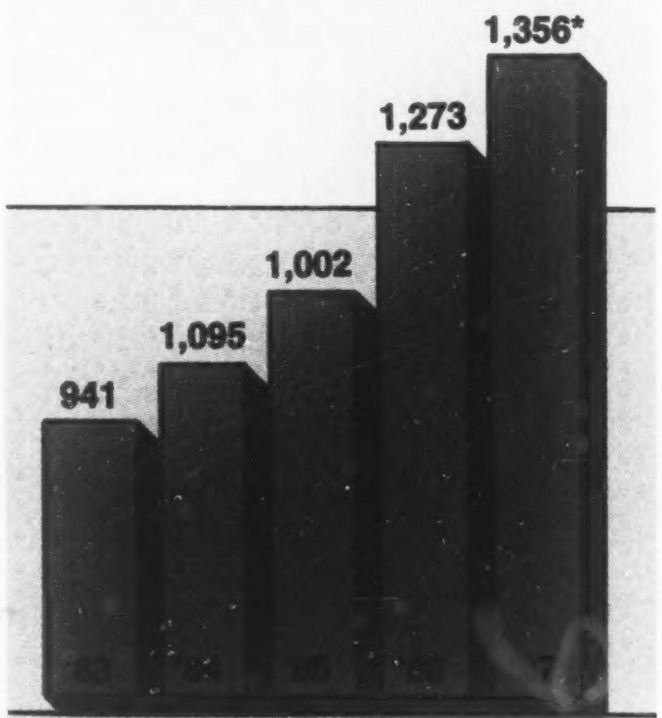
Fiscal years ended Aug. 31
Source: Company reports

Growth costs flatten earnings
(in billions of dollars)



Source: Company reports
Fiscal year ended Aug. 31, 1987

Walgreens' store count



*as of Aug. 31, 1987
Source: Company reports

"Our enthusiasm with that increase is tempered by the fact that these earnings got a big boost from lower income taxes this quarter. They also enjoyed a comparison with fiscal 1987's first quarter, which had to absorb Medi Mart startup and renovation costs, and the negative impact of the new tax law," Walgreen told shareholders in January. "We have plenty of challenges before us, including that of keeping profits up while increasing our promotional programs and sharpening our pricing strategies."

Walgreens highlights

Name: **Walgreen Co.**
Headquarters: **Deerfield, Ill.**
Officers: **Charles Walgreen III, chairman-ceo; Fred Canning, president-chief operations officer.**
Store count: **1,375.**
Prototype store size: **9,500 square feet.**
Regions: **Midwest, Southeast, Southwest, California, and Massachusetts.**
Sales 1987: **$4.28 billion.**
Highlights: **Opened 103 new drug stores,** and **consolidated purchase of Medi Mart** for entry into **New England market.** Launched new efforts in **retail automation to improve store operations** and **inventory** control.

Osco: 'Market concentration is our focus now'

Osco takes prides in individualizing its market presence for local consumers, as evidenced in this Chicago store.

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SALT LAKE CITY — American Stores made a dramatic bid in March to become the nation's biggest supermarket operator when it moved to acquire Lucky Stores on the West Coast. Combined sales of the two firms last year were in excess of $21 billion.

The acquisition of Lucky, which operates 92 combo stores with pharmacies, would also boost market penetration for American's Osco Drug division in key California markets as Osco took control of Lucky's drug operations. Furthermore, the Lucky takeover could create new expansion opportunities for Osco in Lucky's nearly 400 noncombo stores in West Coast markets where Osco is already making a concerted effort to boost market share, an Osco spokesman indicated.

Regardless of the outcome of that bid, however, American Stores is moving to shore up its presence in major markets through all three of its retail divisions—Osco, Alpha Beta Co., and American Superstores. The company operates 645 Osco drug stores, as well as nearly 1,600 supermarkets and combo stores.

The retail giant emerged last year from a massive decentralization effort aimed at placing greater operating control for each division in the hands of local divisional managers.

The reorganization gave each retail division its own central departments for buying, advertising, distribution, MIS and real estate functions, leaving financial, strategic planning and investor relations activities at American Stores' headquarters in Salt Lake City. Thus, each division can operate with enough autonomy to react independently and shore up profit margins.

Osco Drug highlights

Name: **Osco Drug**
Headquarters: **Oak Brook, Ill.**
Officers: **Scott Bergerson,** chairman; **Richard George,** president
Store count: **645**
Average store size: **21,376 square feet (16,684 selling)**
Markets: **Nationwide**
Fiscal 1987 sales: **$3.05 billion**
Highlights of '87: **Completed consolidation chainwide** under Osco's logo and operational systems, **shifting overall merchandise mix in favor of H&BA and pharmacy and boosting POS and pharmacy automation** capabilities. **Boosted marketing and merchandising efforts,** boosting group merchandising staff and placing all marketing functions under unified management.

The recent decentralization and other efforts in marketing and merchandising bore some fruit last year. Sales were slowly improving at Osco and American Superstores, while the latter prepares for new incursions into the key Florida market with new combo stores. But much work remains as the company moves to boost profitability at Osco and Alpha Beta.

Although American Stores' net income rose 6.8 percent in the fiscal year ended Jan. 30, the increase was "primarily a result of the lower tax rate for 1987 . . . as well as the gain on the sale of stores by Osco Drug Co. in the Pacific Northwest," according to a company spokesman. A high LIFO inventory charge, as well as fierce competition in depressed Oil Patch markets and elsewhere, cut into earnings.

In Oklahoma City, for instance, American Stores converted its six Skaggs/Alpha Beta combo stores in that market to a warehouse-store format last summer. The conversion, accompanied by markdowns on hundreds of products in the stores, gave the chain a new, low-price image in that economically troubled city, where warehouse retailing has made major inroads due to the collapse of the oil market and intensive price competition.

"On the whole, 1987 was not a stellar year for American Stores," noted Prudential-Bache retail analyst Susan Schmierer in a report in March. "Overall, operating profits were down 8.3 percent versus last year, as a result of the weakness at Osco and the long road back to profitability for Alpha Beta."

Schmierer blamed much of Osco's difficulty on "shifts in the merchandise mix . . . affecting inventories." In general, the adjustments emphasize drug store basics like H&BA over higher-ticket, non-drug items like sporting goods and appliances.

Nevertheless, those shifts, while painful in the short term, are designed to unify and strengthen Osco's powerful consumer appeal as a convenient, well-stocked drug store and pharmacy center with a strong presence in many of the nation's biggest markets. In line with those efforts, last year the chain even flirted with in-store medical testing centers in five of its Denver drug stores.

Osco's growth strategy is predicated on the same goals. That strategy led to the sale last fall of 24 Osco stores in Washington, Idaho and Oregon to Pay Less, and the swap last June of 11 northern California stores and one Colorado site for 10 Longs Drug stores in Phoenix.

The deals allowed Osco to abandon the Pacific Northwest and northern California, where its presence was marginal and costly, while gaining ground in Phoenix, where it is already the market leader with nearly 40 percent of total drug store sales, according to Metro Market Studies.

"Market concentration is our focus now," explained Osco director of advertising and sales development John Kromer. "We're building market strength where we already have a strong presence."

Osco also took major steps to boost its marketing and merchandising ability in 1987, with the appointment of Ronald Grove to the expanded position of vp-marketing. Grove, formerly vp-distribution, was given overall responsibility for three key areas—merchandising, advertising and distribution.

The change allows for closer coordination between purchasing, promotional activities, shelf allocation and planning, and inventory management for the coast-to-coast chain. In addition, Osco upped its group merchandising manager positions from three to five to increase the sophistication and responsiveness of its buying department.

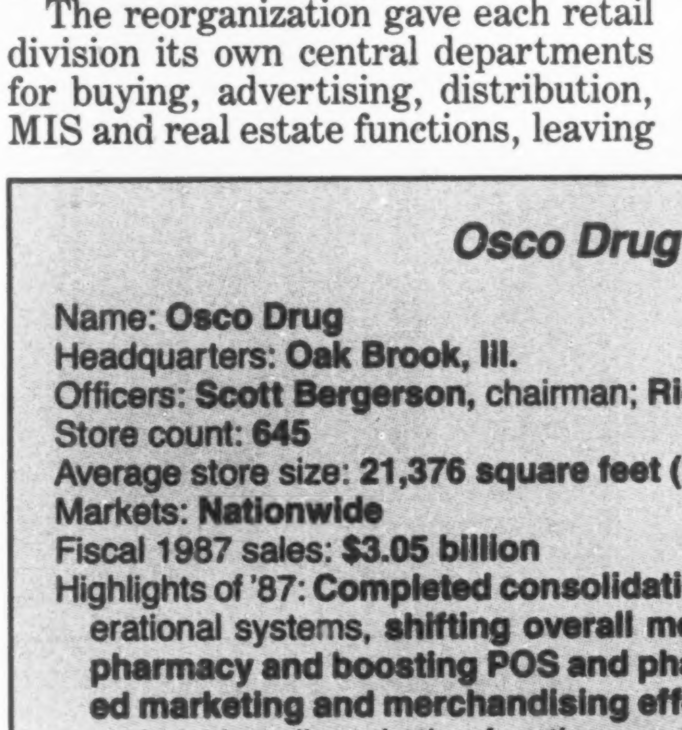
"The marketing emphasis we're making is a significant change for us," said Kromer. "All five merchandising managers are under Grove, and all marketing efforts are under one roof now."

The chain also remains committed to expanding its automation capabilities to boost inventory control and margins and improve customer service. Osco now has point-of-sale scanning registers in 125 stores, and last year extended its installation of pharmacy computers from 10 stores to 400.

Because Osco is a quiet company, its fundamental strengths are deceptive. They are real, nonetheless: Osco is the drug store sales leader in major markets like Los Angeles/Long Beach, Phoenix and Kansas City, and second in Chicago, Boston, Anaheim/Santa Ana, San Diego and Denver. Osco is also a major force in such cities as Seattle, Riverside, California, Indianapolis and Memphis.

Osco sales up slightly

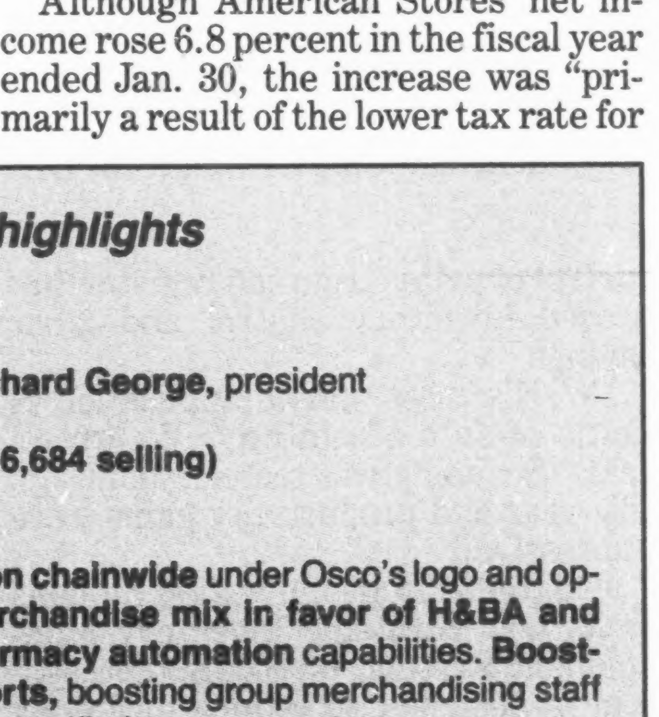
(in billions of dollars)



Source: Company reports

American Stores net income rises

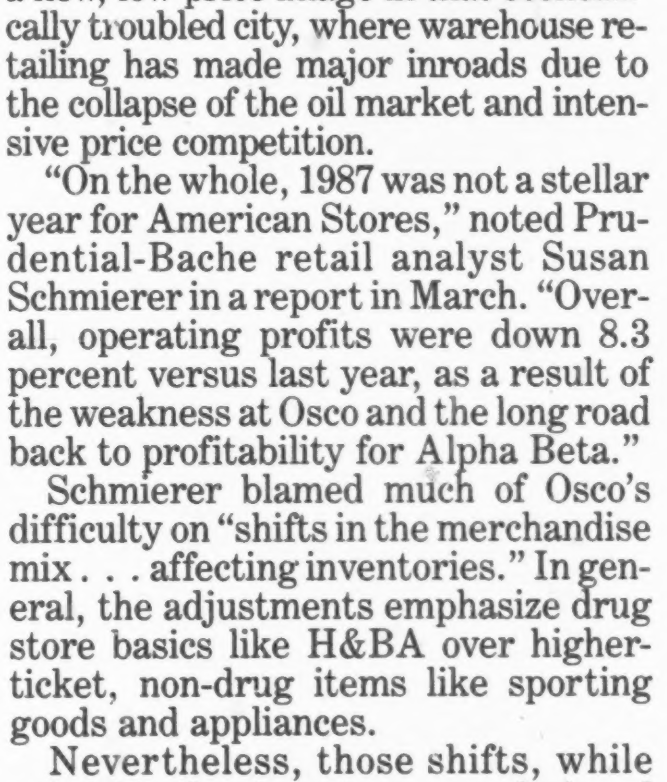
(in millions of dollars)



*Reflects acquisition of Jewel Cos. in 1984

Source: Company reports

Osco store count dips in '87



*Reflects sale of 24 Osco stores to Pay Less NW

Source: Osco Drug

Revco buyout brings major changes to company

Revco D.S. is re-emphasizing its core pharmacy franchise and convenience image.

TWINSBURG, Ohio — Just one year ago, Revco D.S. was quite a different company. Although the 2,000-store drug chain had just emerged from a leveraged buyout as a debt-laden, private corporation, its management, organizational structure, and general operating principles remained essentially those which had guided the company for many years.

Unforeseen by veteran Revco executives, however, the buyout set the stage for the most wrenching changes in Revco's history. Those changes, including the departure of co-founder and chief executive Sid Dworkin, have fundamentally altered every facet of the retail giant, from its top and middle management team to the way it runs its stores.

The buyout was engineered by Dworkin, president Bill Edwards, and a group of heavily capitalized outside investors to take the company out of the reach of hostile raiders and turn it back into a profitable cash producer, away from the scrutiny of the shareholding public. But its cost, $1.45 billion, immediately put the firm under heavy pressure to service its debt by continuing store operations, and with the quick sale of non-drug-store assets.

The LBO had another effect, as well. It diluted the decision-making power of Revco's upper management team by opening the board of directors to representatives of the investment firms that had financed the deal, thus shifting the balance of power. Along with the pressing needs of Revco's $150 million annual debt load, the new board members themselves put pressure on the company to turn operations around quickly, reduce debt, and regain profitability.

Last year, Revco's new board lost no time asserting itself. Faced with intense pressure to reduce its debt service costs, the company launched a concerted effort to divest itself of virtually all assets other than the drug stores and the Odd-Lot closeout retail division. As part of the original LBO financing agreement, the firm also put Odd-Lot on a short leash, giving it a tight deadline in which to raise profit levels or face divestiture.

Since that time, the company has sold several of its 10 non-retail divisions and will complete all divestitures this year, ahead of the schedule imposed by its buyout agreement, according to chief financial officer Vito Cardace. Early this year, Revco also threw in the towel on Odd-Lot, and is reportedly near an agreement to sell the 153 Odd-Lot stores and distribution center to an unnamed bidder.

But the biggest changes at Revco have come within the core drug store division itself. Those changes began one year ago, with the appointment of Revco president Bill Edwards to succeed Dworkin as chief executive, the departure of veteran Revco chief financial officer R. Carroll Hudson, and the election of three new, independent directors of Revco and its new parent company, Anac Holding Corp. Dworkin remained as board chairman, relinquishing his role in day-to-day management of the giant chain.

Although characterized at the time as a "consensus" move on the part of inside managers and outside directors, the shift in top management reflected the growing involvement of Revco's new majority stockholder, D.S. Partners, as well as other outside directors on the nine-member board.

More sweeping changes were to follow, however. Last summer, Revco announced its decision to sell the 45-store Carls Drug chain in upstate New York, for which it had paid $35 million in fiscal 1986. At the same time, the chain was cutting back on previous expansion plans, targeting some 100 stores for sale and urging store managers to boost profit levels through new performance goals and bonus plans. "We are challenging people to do a better job," Edwards said at the time.

Bolstered by upgraded management information systems and enhanced point-of-sale tracking abilities, the chain put the spotlight on underperforming stores in the Southeast and other areas.

That intense performance review continues in all Revco markets, along with an ongoing expense control program. Recently, the chain announced that an unspecified number of stores will be sold by the end of this summer, either because they don't meet new performance standards or because they operate in marginal markets which the chain has decided to abandon.

Revco's cutbacks have had another effect, as well. Last fall, Rite Aid edged out Revco as the nation's biggest drug chain in terms of store count, following that chain's purchase of Gray Drug Fair and Revco's reduction in store totals to its current level of 2,010.

Along with intensified performance reviews and cost-cutting efforts, Revco's new board spearheaded a major overhaul of top and middle management last year. Longtime executives such as vp-MIS Scott Leeseberg and vp-marketing Neil Roth left the company, and others, including Ellis Jones, were reassigned. Jones went from divisional merchandise manager to director of purchase order systems.

Meanwhile, new posts, including vp-sales promotion and vp-inventory management, were created to enhance corporate control of marketing and merchandising. Last year's executive sweep culminated in September, with the induction of former Dayton Hudson president and chief operations officer Boake Sells as Revco's new chairman and chief executive. Capping the end of an era, 66-year-old Sid Dworkin and his son Marc, who had served as executive vp, left the company, and Edwards returned to his earlier role as president and chief operations officer.

Sadly, 1987 also marked the passing of chain drug industry veteran Henry "Hy" Gray, who spent his last 19 years at Revco as administrative vp, and later as vice chairman of the board.

Sells' appointment, meanwhile, signaled the onset of a more sophisticated, broad-based operating structure at Revco, and the completion of a sweeping management overhaul. Backed firmly by the board, the 50-year-old executive moved quickly to install his own hand-picked management team and turn the company around.

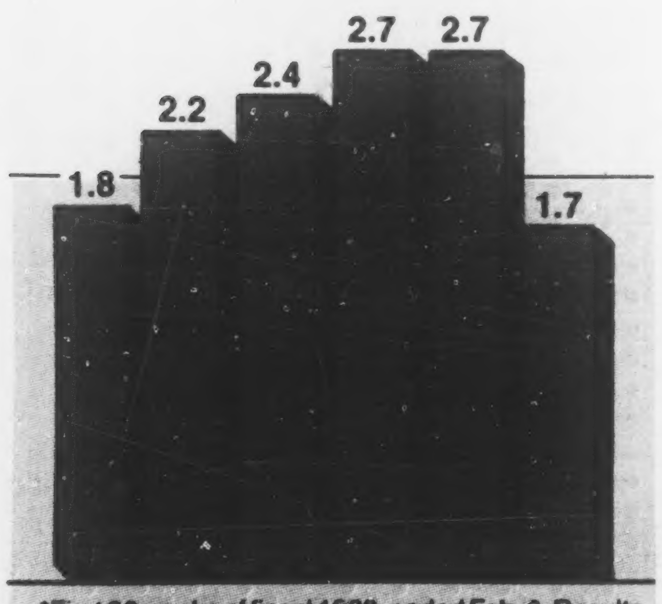
Among his picks have been Carl Bellini, former Gray Drug Fair president, as head of store and pharmacy operations; former Target Stores executives Jim Adamson, Sam Williams and Jeffrey Doshan as executive vp-marketing, director of imports and vp-general merchandise manager, respectively; former Begley Co. senior vp Orlando Segneri as eastern regional vp; and Dwayne Hoven, formerly of T.G.&Y. Stores, as senior vp-distribution, another new post.

Sells, a systems-oriented executive with broad retail experience, acknowledges that Revco is a "troubled" company with much work ahead to restore the giant chain to financial health. To accomplish that goal, he said, will require improved, more responsive operating, merchandising and distribution systems, an aggressive competitive stance, simplified stores with a better layout and improved assortment, higher morale, and a reduction in paperwork at the store level, so that managers can spend more time serving customers.

Under its new ceo, Revco is also re-emphasizing its core pharmacy franchise and its convenience image. To do that, said Sells, will require better in-stock positions, faster checkout, more continuity in merchandise selection, and improved customer service.

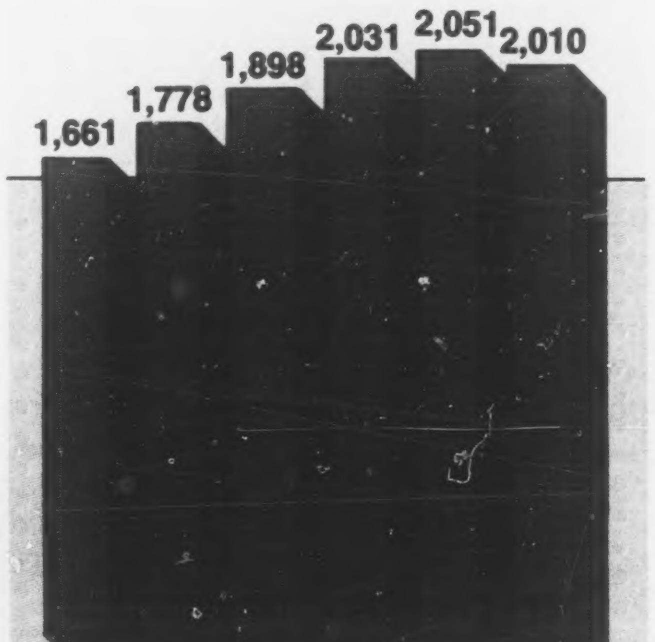
"There are going to be a lot more changes at Revco," Sells told *Drug Store News* recently. "What those changes will be is impossible to say. But I do know that we can serve the customer a whole helluva lot better."

Revco sales edge up
(in billions of dollars)



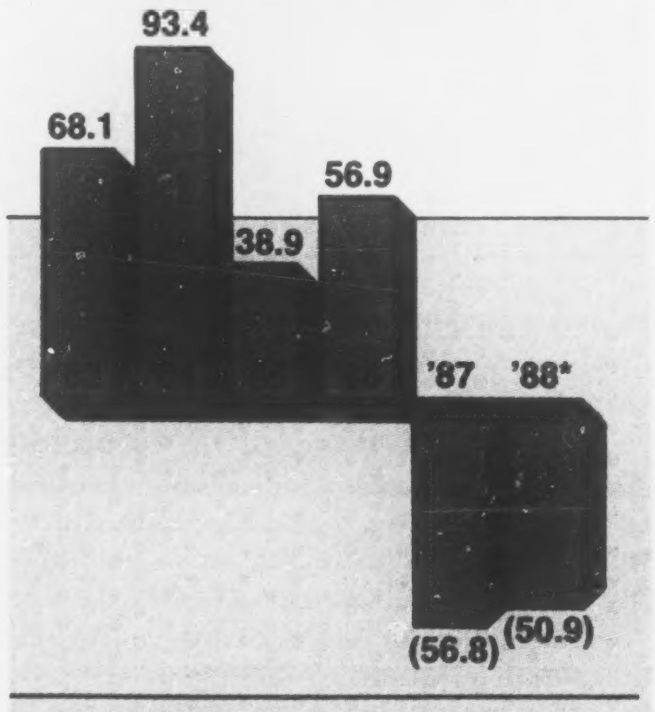
*First 36 weeks of fiscal 1988, ended Feb. 6. Results for fiscal 1987 include those of predecessor corporation, prior to acquisition of Revco by Anac Holding Corp.
Source: Company reports

Revco store count



*As of March 18, 1988
Source: Company report

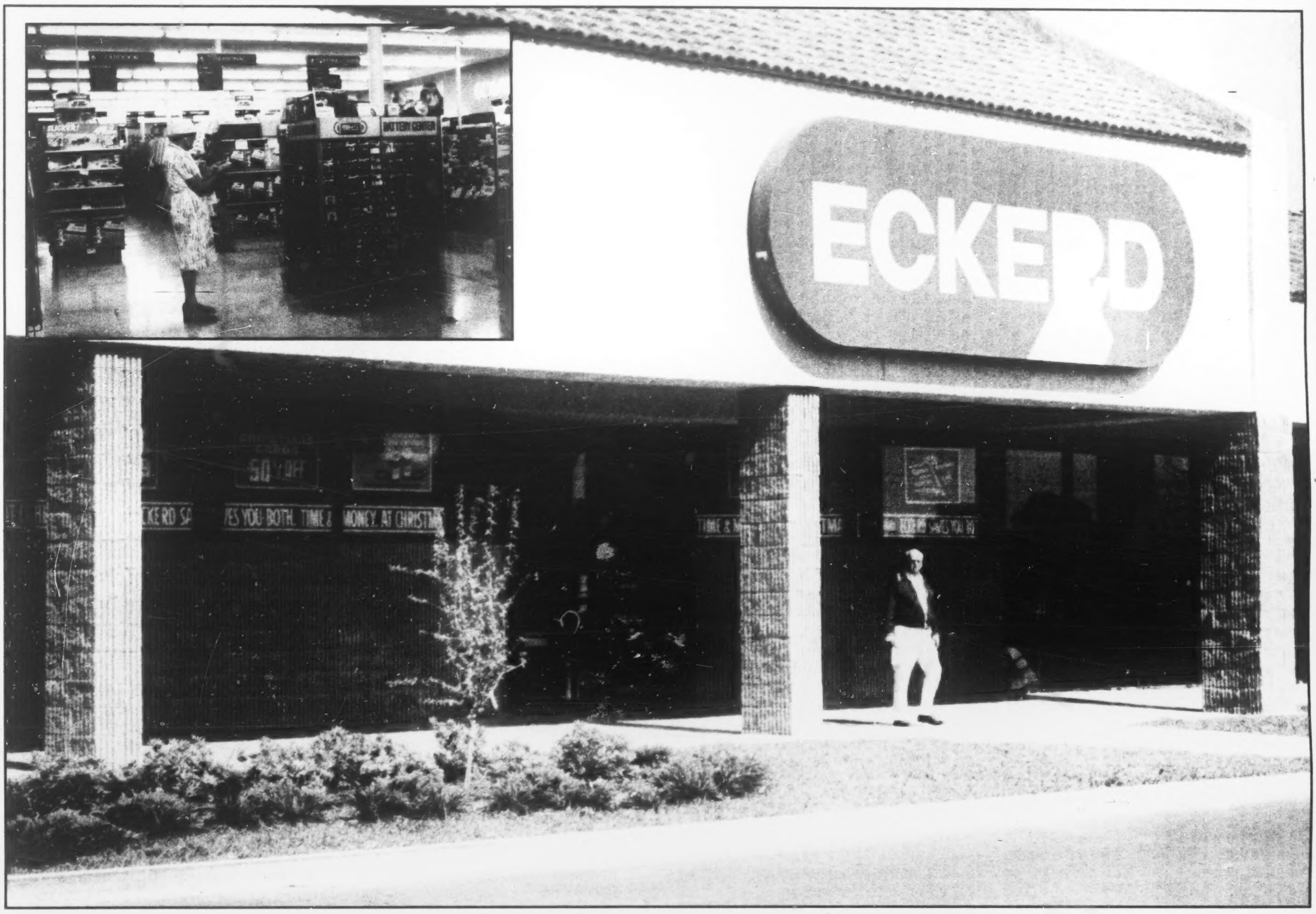
Revco still in the red
(in millions of dollars)



*First 36 weeks of fiscal 1988, ended Feb. 6.
Source: Company reports

Revco D.S. highlights

Name: **Revco D.S.**
Headquarters: **Twinsburg, Ohio**
Officers: **Boake Sells,** chairman-ceo; **Bill Edwards,** president-chief operations officer.
Store count: **2,010**
Average store size: **8,450 square feet**
Markets: **Southeast, Southwest, North Central, Northeast, Middle Atlantic, Midwest.**
Fiscal 1987 sales: **$2.32 billion**
Highlights: of '87: **Sid and Marc Dworkin leave company; Boake Sells assumes chairmanship and directs overhaul** of top and middle management and corporate restructuring. **Revco commences divestiture of** almost **all non-drug-store operations.**



Eckerd has renovationed its stores into the "Spartan" format. Inset: A spacious front area in this Tampa, Fla. "Spartan" format store offers the openness Eckerd seeks.

Eckerd buyout on track; chain sells some assets

CLEARWATER, Fla. — Eckerd Drug's leveraged buyout has sailed into its third year, buoyed by cash flow from a smaller fleet of drug stores.

The company reported that retail sales were generating the necessary cash to cover interest expenses, and produce working capital. It was expected to report 12-month sales of $2.75 billion for the fiscal year ended Jan. 31.

Eckerd reported to the SEC that nine-month sales for the period ended Oct. 31 were $1.93 billion. It didn't provide a comparison with the year-earlier period, because last year the company had rescheduled its fiscal year, making comparisons difficult.

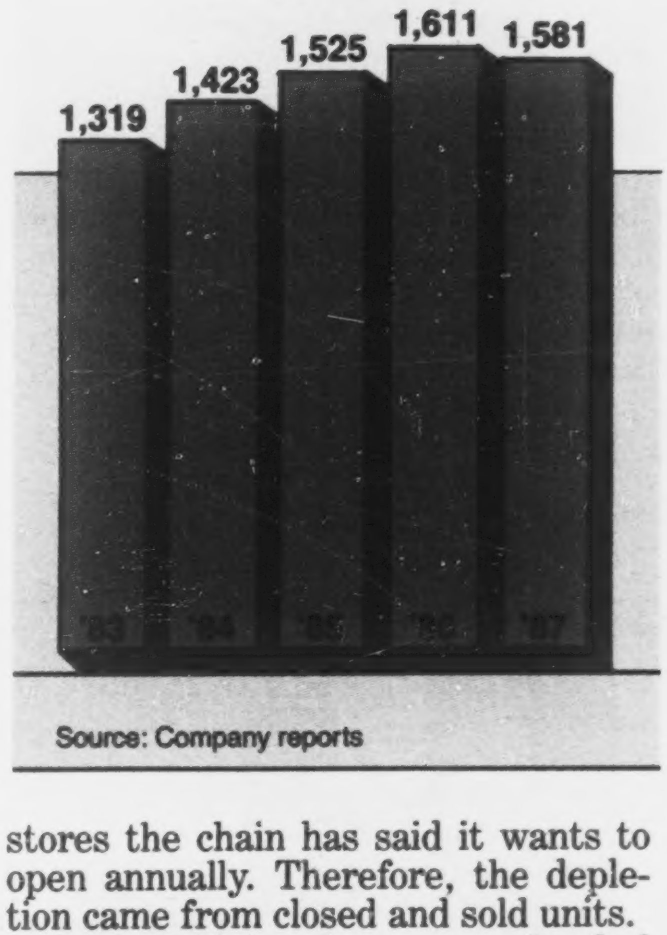
Its last annual report was for the nine months ended Jan. 31, 1987. Sales for those months were $1.91 billion. It said third quarter sales ended Oct. 31, 1987 were $626 million, up 13.2 percent from the comparable year-earlier period, with same-store sales up 11 percent.

With its LBO two-years-old this April 30, Eckerd has essentially followed a program of relying on its retail sales to pay the way. Asset sales have been limited, and it's still a player in most of the markets it occupied as a public company.

Its net store count declined 2 percent as it ended the year with 1581 units, compared to the 1611 stores it had Jan. 1987. An Eckerd spokesman said new store openings for fiscal 1987 were in line with the 40 to 50 new stores the chain has said it wants to open annually. Therefore, the depletion came from closed and sold units.

Eckerd drug units slip 2 percent

(number of stores)



Source: Company reports

Among Eckerd stores unloaded were 19 in Virginia and West Virginia to Hook-SupeRx Inc. The sale eliminated West Virginia as a market, leaving Eckerd with stores in 14 states.

Other sales included 15 stores in various small Alabama markets to Big B, five to Revco in the Brownsville area of Texas, and 11 in Tulsa, Okla. to May's Drug.

Eckerd highlights

Name: **Jack Eckerd Corp.**
Headquarters: **Clearwater, Fla.**
Chairman and president: **Stewart Turley**
President, Eckerd Drug Co.: **Harry Lambert.**
Sales: **$2.75 billion.**
Stores: **1,581** drug stores, **nine** Visionworks optical super stores.
Store size: **8,600 square feet to 10,000 square feet.**
Main markets: **14 states** in the **Southeast, South Central and Mid-Atlantic** regions.
Highlights: **Eckerd's leveraged buyout** allowed it to enter its third year **meeting sales and operating profit goals. It shed its home health care business** as part of an ongoing asset review.

As part of the redeployment of assets, it bought seven Birmingham, Ala. units from Revco, and purchased 28 Safeway pharmacies in Texas. Though Eckerd had shopped 31 stores in its three most northern states of New Jersey, Delaware, and Maryland, it said it dropped the sale attempt after failing to receive an adequate offer.

Eckerd decided last May to exit from the home health care store business, and sold its six Med-Care home health care centers in Tampa, Clearwater, and St. Petersburg, Fla. to Markka Health Care Centers of Atlanta. Eckerd said the high-inventory, slow-return business didn't support cash flow needs.

The chain also said it will close its 228,000-square-foot Hammond, La. distribution center by July, leaving it with six DCs. It said DCs in Atlanta, Houston, and Dallas will service the 165 Eckerd drug stores in the Louisiana district, in a move that will create economies by consolidating inventory, and making distribution more efficient.

The decision to close was also influenced by the area's slumping economy, and the fact that the DC carried more space than the chain was likely to need, a spokesman said.

Eckerd continued its rollout of the "Spartan" format, which features a more open layout, upgraded decor, and a revamped merchandise mix aimed at the convenience shopper. By fiscal year's end, a total of 270 units had been remodeled. Sixty more were slated for reformatting in 1988.

Eckerd's aggressive use of television and radio continued, as did a strong promotional agenda for conveying the convenience and health care picture. It also began selling lottery tickets in its 500 Florida stores after a statewide lottery was approved.

Typical of its promotional programs on health care, it began promoting an organ donor program in stores, and launched an arthritis care program.

Rite Aid steamrolls, via acquisitions, to the top

SHIREMANSTOWN, Pa. — Rite Aid steamrolled into the industry's No. 1 store-count position in 1987, thanks to major acquisitions, and is chugging on the same takeover track in 1988.

At press time, the nation's fastest-growing drug chain was contending to buy all Begley Co. shares for $18.5 million, and turn the company into a wholly-owned subsidiary. Begley operates 43 drug stores, 140 dry cleaning stores, six home health centers, a printing business, and a distribution center in Richmond, Ky. SupeRx, based in Phoenix, is the other bidder.

If Rite Aid acquires Begley, the chain's store count would rise to 2,113, and its drug store penetration in Kentucky would climb from 32 to 75 stores. The move would also signal Rite Aid's continued aggressive strategy of growth by acquisition, largely in existing markets where distribution efficiencies help generate profits more quickly.

Indeed, Rite Aid has earned its reputation as a savvy acquirer of underperforming stores, often with low rent structures, at sharp prices. The chain consistently turns these stores into conventional Rite Aids, and a relative handful of Drug Palace deep discount stores.

Under the hand of chairman Alex Grass, Rite Aid has shown its expertise as a takeover and turnaround artist repeatedly over the past year-and-a-half. Its major swoop last June included 356 Gray Drug and Drug Fair stores, bought for $115 million. That deal gave Rite Aid an overnight major Midwestern presence, and filled in Rite Aid's continuous run down the Eastern seaboard.

A self-service checkstand area featuring cigarettes and candy at the Camp Hill, Pa., Rite Aid.

Moreover, the takeovers added to states where Rite Aid already operated, was familiar, and accorded buying and distribution efficiencies without significant cannibalization.

It followed by five months Rite Aid's $110 million takeover of 218 SupeRx, Gray Drug and Drug Fair stores in Maryland, Georgia, Florida and Alabama. That followed the purchase of nine Harris stores in North Carolina last fall.

Together, the deals capped a seven month period in which Rite Aid swelled its store count 45 percent.

Executive vp Martin Grass told *Drug Store News* at the time that Rite Aid "never wanted Gray Drug Fair all at once. We had a game plan to get Baltimore and Florida. If we got the rest, OK. If not, we'd live without them."

The result: After paying a bargain price of less than $500,000 per store in the $110 million pacts, an amount that barely covered inventory and fixtures, Rite Aid outdid itself by paying about $330,000 per store in the latter deal.

Martin Grass called it "a once-in-a-lifetime opportunity."

The Gray Drug Fair stores averaged 12,500-square-feet and ranged upward to 20,000-square-feet. However, Alex Grass said shortly after the deal it would take up to 30 months to convert the stores to 6,600-square-foot (selling space) Rite Aids, after subleasing or turning space back to landlords.

He added, however, that all would be performing close to Rite Aid standards by the end of 1988. Rite Aid's pretax margins are 7.8 percent compared to Gray's 1.7 percent.

A downtown Syracuse, N. Y. Rite Aid unit.

Upside leverage and an uncanny knack for turning stores around won Rite Aid plaudits from most Wall Streeters and industry watchers for consummating the deal.

Grass considers the takeover field fairly wide open for Rite Aid's efforts. "Sites have become easier to acquire as more of our major competitors have limited their expansion due to their involvement with leveraged buyouts and consolidations."

Rite Aid is positioned fiscally and with ample distribution support to continue to grow rapidly this way. The chain began using its 265,000-square-foot distribution center in Winnsboro, S.C. in June, acquired a former Kroger DC in Melbourne, Fla., and has the total capacity to service up to 2,500 stores—roughly 430 more than it has now.

For the nine months ended Nov. 28, 1987, the latest fiscal period available at press time, the Rite Aid drug segment produced 43 percent sales gains from $1.2 billion to $1.7 billion, and 24 percent increases in net income from $42.1 million to $52.2 million.

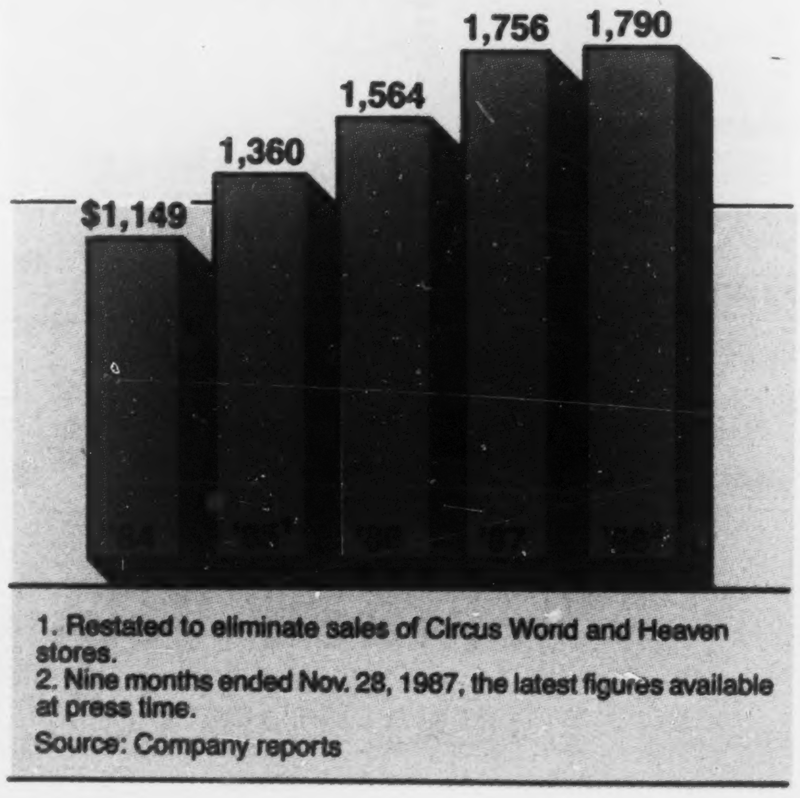
For all of Rite Aid's efficiencies, its cookie cutter approach to merchandising stores may soon undergo a shift. Former senior vp-purchasing Howard Diener left in late January to become executive vp-marketing at Peoples, a considerable rival in the Greater D.C. area and other markets.

Rather than be replaced, Diener's department has been merged with the merchandising department. Roger Grass now bears responsibility for both in his new post of vp-merchandising and purchasing. His new approach may soon become apparent.

Rite Aid highlights

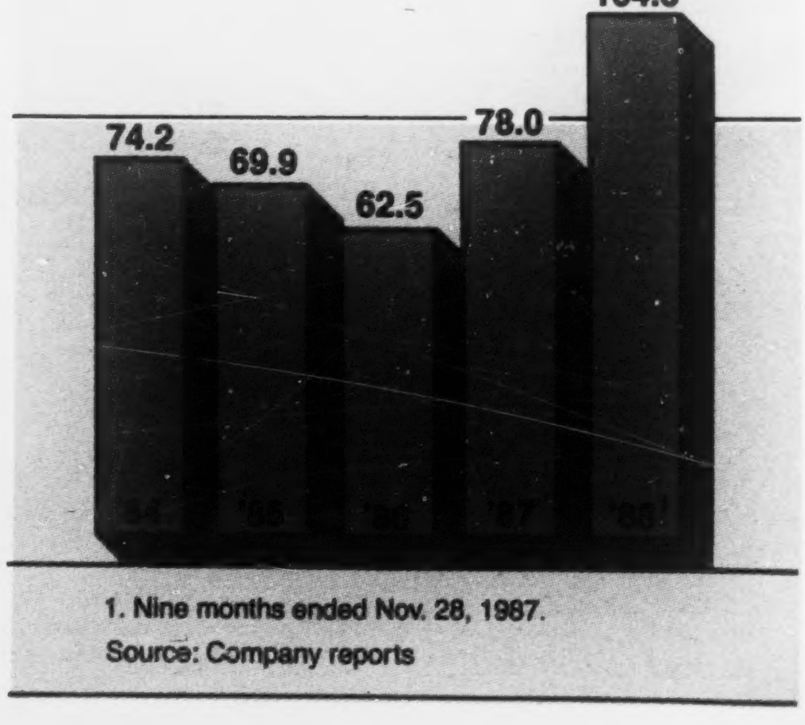
Name: **Rite Aid.**
Headquarters: **Shiremanstown, Pa.**
Chairman: **Alex Grass.**
Sales: 9 months, retail drug segment, **$1.7 billion.**
Store count: **2,070.**
Average store size: **6,600 square feet of selling space**
Regions: **Eastern Seaboard** (from New Hampshire to Florida), as far west as **Indiana.**
Highlights: **Acquired 356 Gray Drug and Drug Fair stores** in June, and is **currently competing for Begley.** Head purchaser **Howard Diener left to join** rival **Peoples.**

Rite Aid sales soar
(in millions of dollars)



1. Restated to eliminate sales of Circus World and Heaven stores.
2. Nine months ended Nov. 28, 1987, the latest figures available at press time.
Source: Company reports

Rite Aid earnings grow
(in millions of dollars)



1. Nine months ended Nov. 28, 1987.
Source: Company reports

I'm So Busy
I Haven't Got
Time To Get
Organized.

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PROFILES

Longs achieves year's goal of improved earnings

WALNUT CREEK, Calif. — Longs Drug Stores opened this past fiscal year with its sights focused sharply on profit improvement.

The result: the chain ended several years of relatively flat earnings with its best performance ever.

Net earnings for the year rose 28 percent to $49.2 million, as sales increased 8 percent to $1.77 billion.

In posting these results, Longs increased its net profit margin by a full four-tenths of a point, to 2.8 percent, an extremely potent result by industry standards. Sales per store rose to $7.74 million, the industry's best.

Longs' performance was robust all year, but in the fourth quarter, which included the Christmas selling season, the results were outstanding. Profits jumped 34 percent to $15.1 million from $11.3 million, as sales increased 6 percent to $497 million.

Longs attributed the fourth quarter gains to increases in sales and gross margins and a reduction in income taxes.

Neon signs and mirrored entrances give glossy upscale image at Longs Pharmacy, the new downsized, downtown store in San Diego's Horton Plaza.

That was the simple explanation. The fact was that from the beginning of the year Longs undertook a total evaluation of every aspect of its business with an eye to improving performance in all areas.

Indefensible markets were abandoned and weaker stores were closed or sold off. A good training program was made even better, as customer service and convenience were reaffirmed as top objectives. Cost containment became a top drawer priority. And even more attention was given to adapting the merchandise mix to particular markets and stores.

Additionally, Longs began to investigate an increase in the amount of merchandise shipped through its distribution centers as a step toward possible economies through larger-scale purchases.

Fifteen to 20 percent of Longs' merchandise is currently handled through one of its four small distribution centers, two in Southern California, one in Hayward, Calif., and one in Hawaii. Most of the merchandise handled by these centers are promotional goods, but Hayward also has some staples.

Longs appointed a five-member committee to consider expanding its distribution center activities, and that committee was due to report this year. Chain officials made it clear, however, that even if there were an increase in the percentage of goods shipped from a distribution center, the change would not detract from Longs' emphasis on decentralized store operations.

Store manager automony has been a hallmark of Longs since the company's founding 50 years ago by Joe and Tom Long.

With its focus on strengthening its hold on key markets and closing stores in weaker ones, Longs worked out a deal with Osco involving the mutual sale of stores in three states.

From Osco, Longs purchased 11 stores in Northern California and one in Colorado. In turn, the Oak Brook, Ill.-based drug chain bought 10 stores in Phoenix and five stores in Tucson from Longs.

Longs benefited from the greater penetration in its Northern California stronghold as well as from getting out of an extremely competitive market in which it had never been able to achieve a dominant position. Osco shored up its already strong position in Phoenix.

More recently Longs sold two stores in outpost markets that the chain had never developed. The two stores, one in Bend, Ore., and the other in Yuma, Ariz., went to Pay Less NW.

With all of the changes, Longs wound up the year ended Jan. 28 with 229 stores in six states: California, Hawaii, Alaska, Arizona, Nevada, and Colorado. That was a net gain of seven stores. During the year, however, Longs opened 10 new stores, right in line with its historical opening schedule of 10 to 17 stores a year. In the current fiscal year, Longs plans to launch 13 new stores, and five are already under construction.

One departure from Longs' concentration in recent years on suburban shopping center sites was the opening in late February of a store in downtown San Diego.

The new store, a replacement for Longs' first San Diego store, is a smaller unit — just 12,442 square feet. Longs' full-sized prototype stores are typically in the 26,000-square-foot range, with 17,000 devoted to sales. But the chain has recently begun to open a few smaller units, including one in Alameda, Calif. that's approximately 10,000 square feet in size.

The San Diego unit, in the Horton Plaza shopping mall, is unusual for another reason: it's the first Longs store since 1956 to open with an ice cream and soda fountain.

The chain hasn't yet decided whether the store will become a prototype for other similar small location opportunities, but it did select a name for the store to distinguish it from the chain's larger Longs Drug Stores. The unit is called Longs Pharmacy.

The name difference was also aimed at avoiding customer confusion about the availability of specials promoted in Longs' regular ROP ads and freestanding inserts. Because of tight space in the new Longs Pharmacy, especially in the backroom, Longs could not offer promoted specials there. Those specials, with hot prices and high consumability, are available only in the chain's larger Longs Drug Stores.

During the store's opening, however, indications were that customers were still confused, and store associates spent a lot of time explaining the reasons why the flyers they were carrying did not apply to Longs Pharmacy.

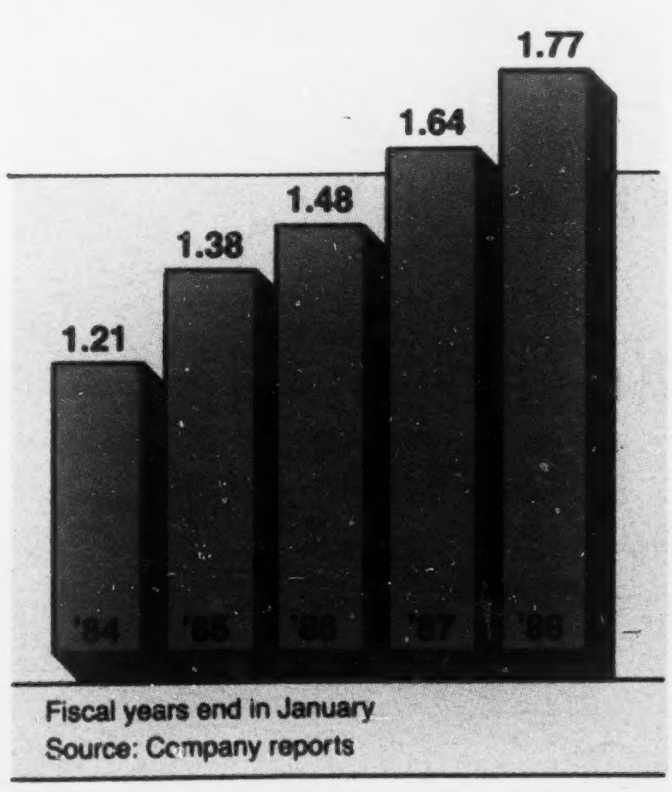
Longs made other moves during the year, including these:

- The chain announced that it authorized the repurchase of an additional 2 million shares of stock, a move that analysts saw as both an effort to enhance the value of remaining shares and also to defend against any possible takeover attempts.

Bob Long, the president, said that the chain had concluded the repurchase of approximately 94% of the 2 million shares authorized in a previous buy-back plan.

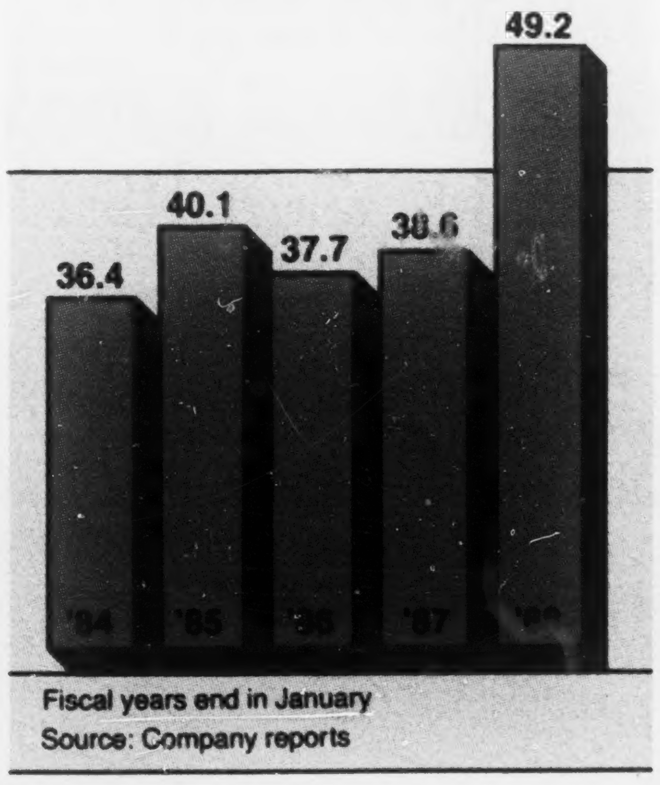
- Longs won a contract with the Foundation Health Plan to become the administrator of the its prescription service. Foundation is a health maintenance organization with 200,000 members in 23 California counties. The HMO's members last year chalked up 770,000 prescriptions.
- Longs increased its commitment to private label, both as a profit enhancer and as a tool to build customer loyalty. The chain introduced quite a few items in OTC and H&BAs as well as in nondrug store items such as batteries, storage bags and staple food items. There are now some 250 to 300 items carried in Longs' P-L program.

Longs' sales up 8%
(in billions of dollars)



Fiscal years end in January
Source: Company reports

Longs' earnings jump 27%
(in millions of dollars)



Fiscal years end in January
Source: Company reports

Longs' highlights

Name: **Longs Drug Stores.**
Headquarters: **Walnut Creek, Calif.**
Fiscal '88 Sales: **$1.77 billion; $7.7 million in per store sales is industry's best for conventional drug chains.**
Net earnings: **$49.2 million,** highest ever.
Store count: **229** in six states.
Highlights: **Opened a small downtown store in San Diego,** the first since 1956 with soda fountain. **Abandoned Phoenix** after a decade of struggling for greater market share. **Celebrating its 50th anniversary** in the retail drug store business this year. **Decentralized store system** remains **unique in industry** for a major chain.

PHARMACY
COUGH & COLD CENTER
Thrifty
DRUG AND DISCOUNT STORES
17
18

Conventional Thrifty in Hollywood, Calif., sports dual general merchandise-core drug store image, with main aisle leading to pharmacy.

Thrifty strengthens position with parent's support

LOS ANGELES — Thrifty Corp. expects to continue its torrid growth pace in 1988 with strong support from its parent company Pacific Enterprises.

Currently, 50 new stores are planned for 1988, but Thrifty's parent has made it clear the chain is also looking for acquisition possibilities, that could step up this growth.

These plans continue in the same mode as 1987, when Thrifty added 20 Drug and Discount stores, and 27 Thrifty Jr. stores, bringing its total drug stores to 641. In 1988, Thrifty's new stores will be divided equally between the two formats.

During the past year, Thrifty also added to its base of sporting goods stores with 42 new stores, raising this division to 160.

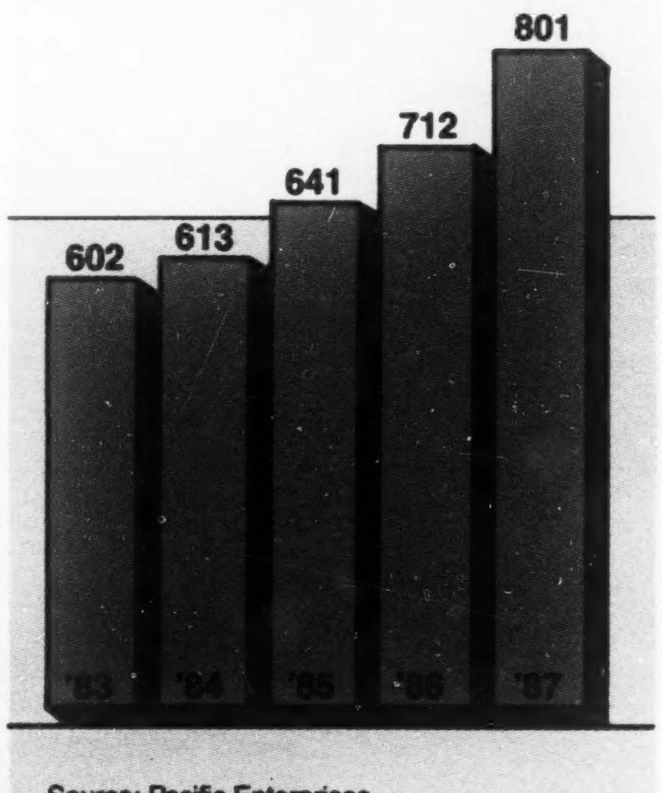
The combined new store total increased Thrifty's store count 13 percent, the greatest increase in recent years. Combined, the stores produced a 23 percent earnings increase and an 18.5 percent sales gain, pushing the company to $39.5 million in net income on sales of $1.84 billion. Thrifty also managed strong same store sales growth, as stores open for more than one year realized an 8.5 percent gain.

Pacific Enterprises attributes much of this growth to improvements in Thrifty's operating and financial performance, and to economies of scale realized through store growth.

For the drug retailing sector, the parent company said in its recent annual report that improved operating performance at this level was due to several key factors:

- The upgrading of 87 percent of the stores to the "Perfecto" format, which the report said utilizes "more efficient layouts, improved lighting, and more appealing displays."
- The completion of pharmacy computerization.
- A continuation of the computerization process for Thrifty's checkout counters. The three-year installation plan is designed to "increase the accuracy of pricing, speed checkouts, improve inventory control and enhance knowledge of consumer buying patterns to allow more responsive advertising and merchandising practices," according to the report.

Thrifty Corp. store count



Source: Pacific Enterprises

The latter point is especially pertinent for Thrifty's drug stores in Los Angeles County, as the chain agreed to pay $117,940 in civil penalties and initiate a five-year price monitoring program after charges by the District Attorney's Office that Thrifty was not ringing up advertised sale items at the right price.

The settlement was reached under a court injunction, but in doing so, the chain did not admit to any wrongdoing. The five-year pricing policy, whereby managers must personally verify that all merchandise is properly priced, was expected to cost $750,000, according to the chain.

Thrifty's stores which generated the complaint were the sites that still had the non-computerized registers.

However, much of last year was highlighted by positive efforts, including Thrifty's first World of Style and Beauty consumer cosmetics show. About 20,000 attended the two-day event, enabling Thrifty to further establish its commitment to cosmetics.

Thrifty also pushed its Jr. concept into new markets with the opening of four stores in Ralphs Grocery Co.'s Giant supermarkets. Although the chain is still evaluating the effectiveness of the move, the sites did provide Thrifty additional testing ground for its small scale stores.

For Thrifty's sporting goods stores division, Pacific Enterprises expects this area to "grow even faster than drug retailing, with the net number of outlets increasing at an average rate of 10 to 15 percent per year for the next few years."

It is the sporting goods division, in fact, that has already seen growth through acquisition in 1988. Thrifty recently announced it had acquired 21-store chain Dave Cook Sporting Goods, which has stores in Colorado and Wyoming.

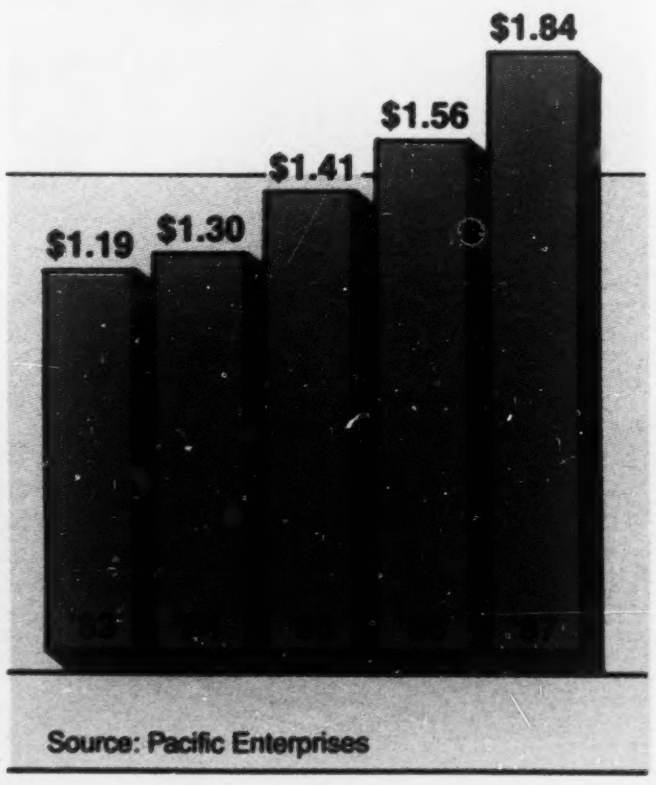
This acquisition was in keeping with the Pacific Enterprises strategy of operating well-known regional sporting goods chains, which provide enough stores to produce economies of scale.

The parent anticipates Thrifty's drug stores and sporting goods stores to remain on predictable growth path the rest of this year, as they benefit from the current health and fitness consciousness of Americans.

Thrifty Corp. Highlights

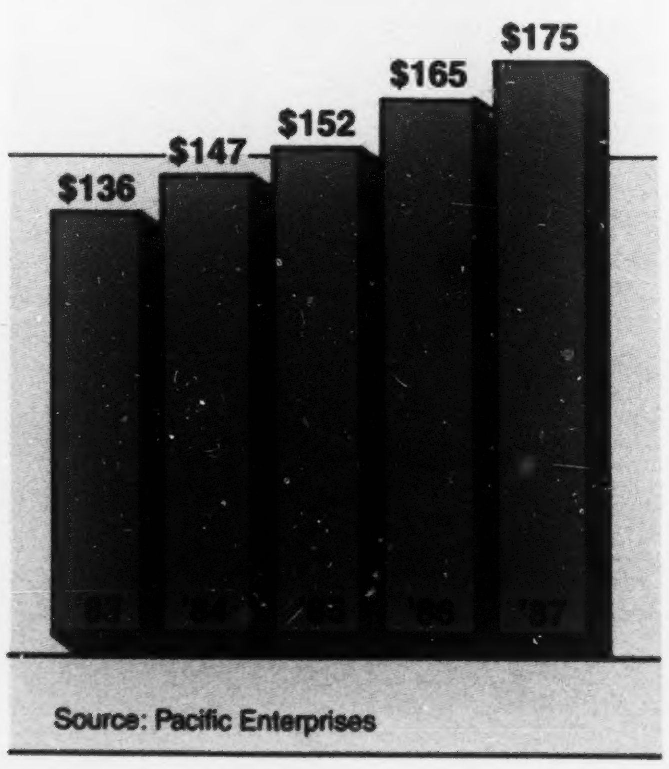
Name: **Thrifty Corp.**
Headquarters: **Los Angeles**
Chairman and ceo: **Leonard H. Straus**
President and coo: **Richard G. Eils**
Fiscal 1987 earnings: **$39.5 million**
Fiscal 1987 sales: **$1.84 billion**
Stores: **641** drug stores and **160** sporting goods stores
Average drug store size: **19,000 square feet**
Market: **Southern California**
Highlights of '87: Thrifty **sponsored its first World of Style and Beauty consumer show,** affirming its commitment to cosmetics. Thrifty **expanded its junior stores' reach,** opening four sites in Ralphs Grocery Co.'s Giant supermarkets.

Thrify Corp.'s sales growth
(in billions of dollars)

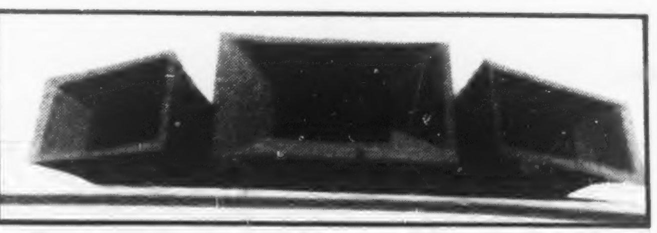


Source: Pacific Enterprises

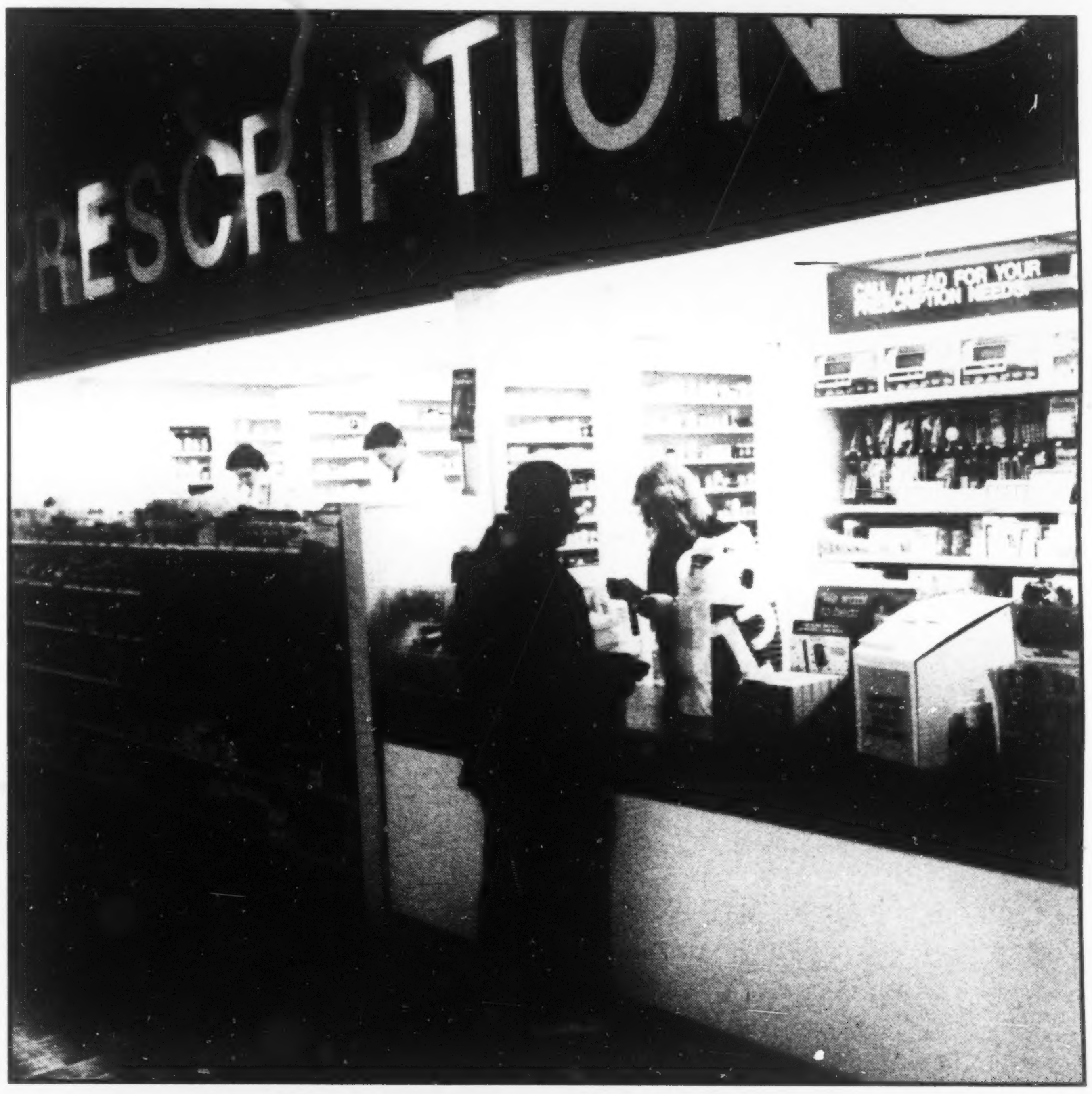
Thrifty Corp.'s sales per square foot



Source: Pacific Enterprises



Peoples' overhaul results in operating profit for year



People's prescription department has a step-down arrangement that allows pharmacists to consult directly with patients.

ALEXANDRIA, Va. — Peoples Drug Stores, suffering a serious outbreak of red ink in 1986, took a stiff dose of healing medicine last year. It seems to have worked.

In the fiscal year that ended in December, Peoples said it achieved an operating profit, compared to a loss the previous year. Moreover, there are signs that the chain's recovery has only just begun. Shopper count, down as much as 4 to 5 percent during Peoples' doldrums, is now on the upswing. The average customer transaction is up 8 to 9 percent. Comparable sales in the four new "Boss" prototype stores have risen 18 percent.

The change in fortune for the 820-store chain is the result of a top-to-bottom overhaul that took place in 1987 following Peoples' plunge. The changes were orchestrated by David Bloom, chairman of Imasco Retailing Group, which includes Peoples as well as Canada's Shoppers Drug Mart, and David Eisenberg, Peoples' senior executive vp and chief operations officer. The transformation has touched every phase of business from human resources to marketing to operations to real estate.

As part of its total makeover, Peoples sold or closed underperforming units in weaker markets, including 12 in Baltimore, eight in North Carolina and 15 others in minor markets. Peoples has also sold off operations that are no longer central to its new emphasis on core drug store retailing, including its B.H. Krueger manufacturing subsidiary and its five small Smiles card and gift shops. The chain expects to sell or close 10 to 15 additional stores this year.

To offset the loss of those stores, about 30 new units will open this year, according to chain officials, but no major acquisitions are planned. The growth will occur in markets in which Peoples already is firmly entrenched.

While the influence of Shoppers Drug Mart, Peoples' Canadian sister chain under Imasco, has been felt at the Alexandria, Va.-based chain, it has not been dominant. Bloom, who is also chairman and ceo of Shoppers, said the idea never was to make Peoples an identical twin of the Canadian chain but to create synergisms between the two operations and build on the individual strengths of each.

From SDM have come strengths in cosmetics, advertising and marketing planning, according to Bloom. From Peoples has come strengths in seasonal and photo department merchandising. Both chains have strongly established franchises in pharmacy.

At the heart of Peoples' transformation is the new Boss prototype (for "The customer is boss"). Imasco has approved a heavy investment in retrofitting all of the stores, and the job is expected to be completed by 1991.

The newly remodeled stores feature a completely revised merchandise mix that focuses on the core categories of pharmacy, OTC, health & beauty aids and cosmetics. Baby care needs and photo, always a Peoples strength in its markets, have also been given prominence.

While beefing up its core drug store image, Peoples has cut back on general merchandise categories such as housewares, hardware, auto, and toys, which have been drastically pared to the top-moving products.

In one major example of de-emphasizing general merchandise, Peoples dropped running shoes, a $6 million inventory item, from its stores.

David Bloom has often said that Peoples' intention is to shed its image as a general store with a pharmacy and become a pharmacy with general merchandise. "We don't want to be all things to all people," he said.

The prototype also features a fresh department layout that places key categories in optimal locations for shopper convenience. Thus, cosmetics and toiletries have been moved to the front of the store near the entrance. A neat, uncluttered look has become standard for Peoples stores, and so have clear aisle markers for in-and-out shopping ease.

Service has also been reemphasized, especially at the pharmacy (where consultation is now being given great weight) and in the cosmetics area. Many of the newly remodeled stores will have cosmetics service bull pens.

The changes at Peoples have come partly as the reaction to a consumer study that Peoples conducted at the beginning of last year. The research found that customers put convenience at the top of their list in terms of drug store shopping priorities. The research also discovered that Peoples had a high-price image with shoppers.

To overcome this image and to meet increased competition from food and drug combo operators like Giant Foods, Peoples has cut its overall gross margin by 2 full percentage points, according to Bloom. The new price strategy also includes beefing up its promotional image in freestanding inserts, which have been given a bold new look with bright reds and hot specials featured in starbursts.

While value is one aspect of the upgraded image, another is full selection. In 1986, Peoples' selection image suffered a serious blow as the result of a severe out-of-stock problem. These were caused by massive software glitches at the chain's relatively new Fredericksburg, Va. distribution center. A lot of ordered merchandise just never found its way into the stores, and service level percentages dwindled to the low 80s. The situation in cosmetics was even worse, with service levels in the low 60s, according to Bloom.

With the distribution problems now largely solved, Peoples' service levels are back up to the 95-96 percent range, Bloom said.

In an effort to gauge its marketing performance with greater precision and timeliness, Peoples has also begun a major investment in point of sale equipment. With POS being added at a rapid rate (100 this year and 200 a year thereafter) all stores are expected to be equipped by the early 1990s.

Peoples is also trying to foster a greater degree of entrepreneurial spirit among its managers. Managers, who have been given more merchandising flexibility, have also gained new incentives to improve individual store performance. Under the new "Strive" program, managers will be able to improve their bonuses based on making and exceeding targets in controllable profits at their stores.

During the year, Peoples also undertook a complete reorganization of its regions. The chain's more than 800 stores in 13 states and the District of Columbia have now been placed in four regions, each headed by a regional senior vice president.

The four regions are the Midwest, including Kentucky; Pennsylvania, withtwo stores in New York; Mid-Atlantic; and the Southeast.

The aim is to consolidate all of the stores under a single logo: Peoples. Additionally, buying and other functions, which used to be carried out separately in different regions, will be consolidated. The moves will mean greater efficiency as well as more buying leverage for the chain.

The new marketing effort is being headed by Howard Diener, a veteran executive who earlier this year left his job as senior vp of purchasing at Rite Aid to join Peoples as executive vp of marketing.

Diener is just one of the executives who are part of a revamped management team under Dave Eisenberg that aims for broader participation in planning and execution of policy. Other executive vps include Richard Barker, chief financial officer; Ken Simmons, operations; David Forman, human resources; Charles Sonnenberg, information systems; and Bill Eagleson, who is also president and chief operations officer of Peoples' Buds division.

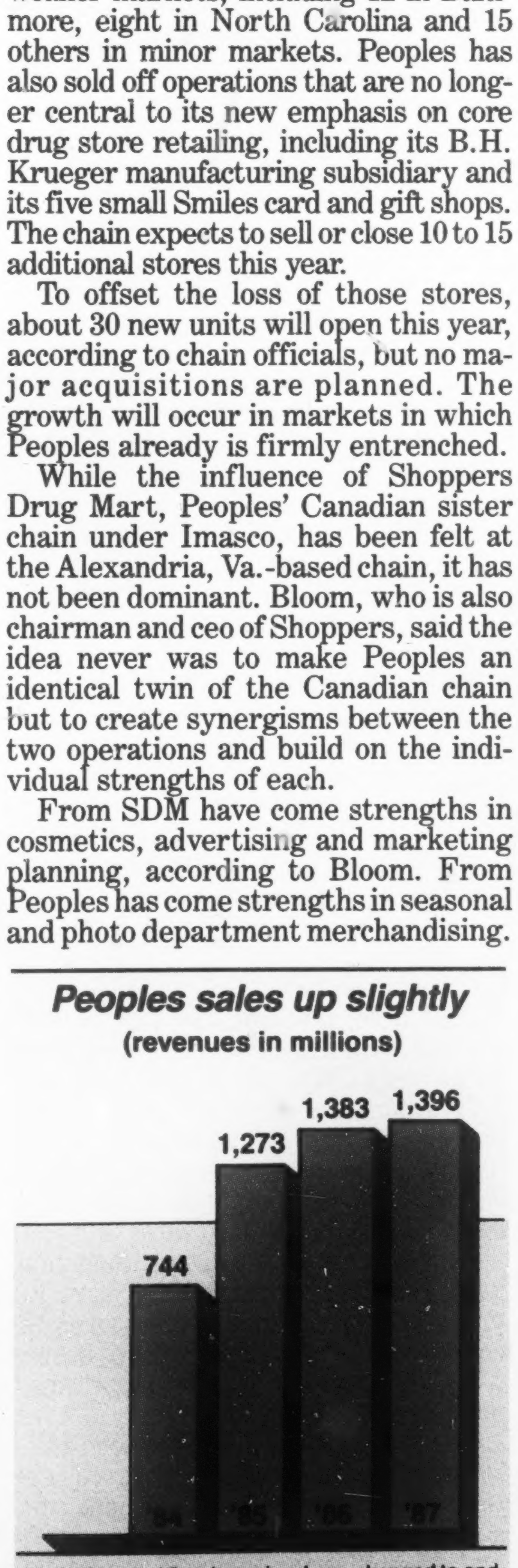
Peoples highlights

Name: **Peoples Drug Stores**
Headquarters: **Alexandria, Va.**
1987 sales: **$1.396 billion**
1987 operating profits: **$16.857 million**
Store count: **820**
Highlights: **Went from operating loss in 1986 to a profit last year.** Unveiled **new marketing strategy** with **emphasis on the core drug store categories** and convenience, service and value for customers.

Source: Company reports

Peoples sales up slightly

(revenues in millions)

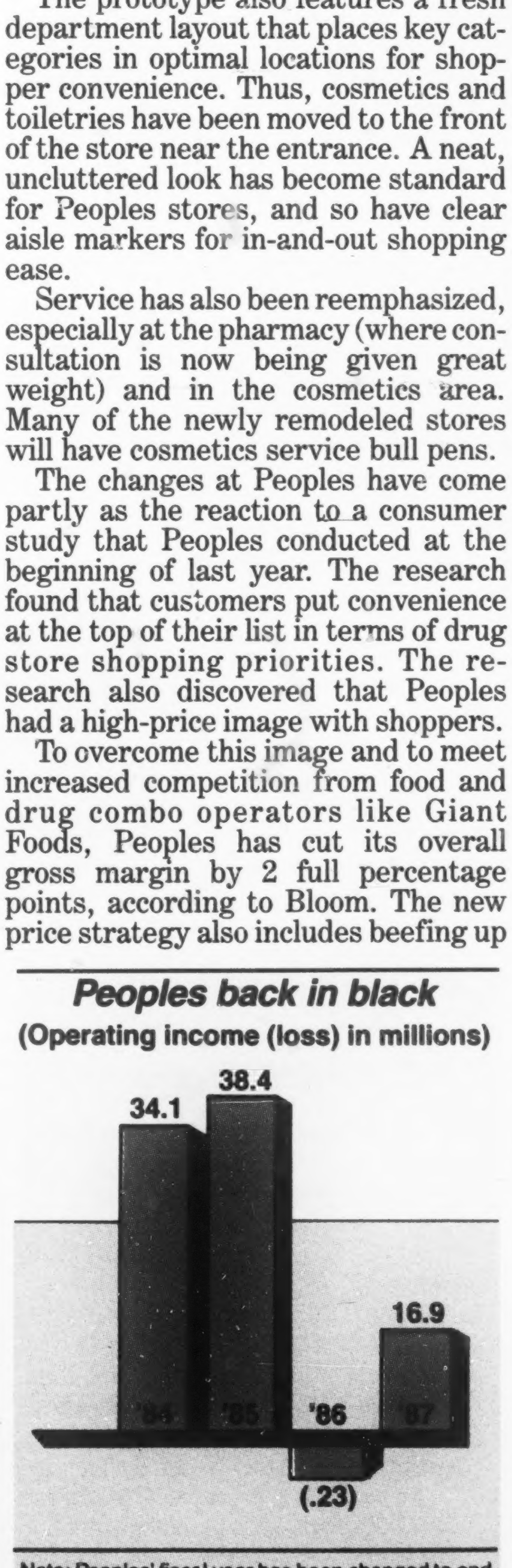


Note: Peoples' fiscal year has been changed to end on Dec. 31 rather than March 31. U.S. dollar figures shown are pro forma for 12 months ending on that date.

Source: Imasco Ltd.

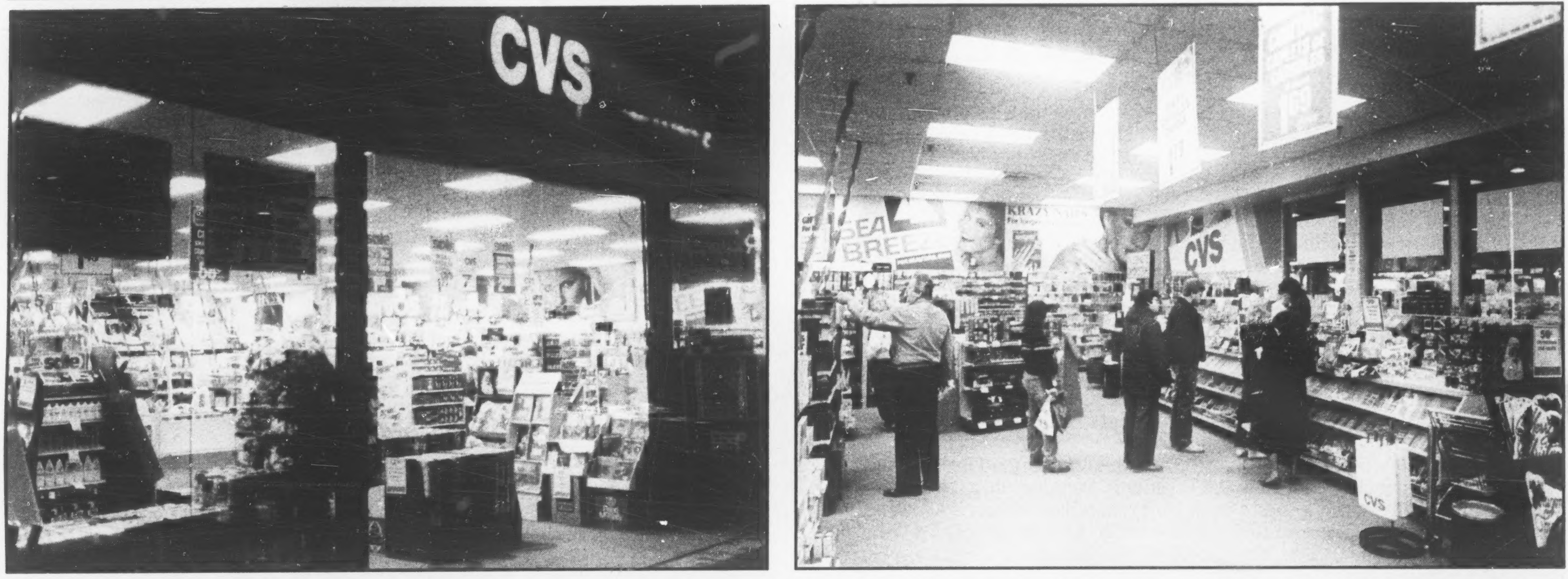
Peoples back in black

(Operating income (loss) in millions)



Note: Peoples' fiscal year has been changed to end on Dec. 31 rather than March 31. U. S. dollar figures shown are pro forma for 12 months ending on that date.

Source: Imasco Ltd.



Much of CVS' success has been built on its attention to small details important to its customers. In 1987, CVS opened 69 new stores, with 25 of those being new acquisitions.

Acquisitions, performance mark CVS' '87

WOONSOCKET, R.I. — CVS, the 700-unit chain of conventional drug stores owned by Melville Corp., had another good year in 1987.

Management reports that "earnings were good this year, even a bit better than last year." CVS's parent, Melville Corp., only releases combined earnings for its two drug store divisions. The division, which also includes Freddy's deep discount drug stores, had posted a 13 percent increase on operating earnings to $99.8 million for 1987.

CVS's sales were up 18 percent while the chain's store count grew by 11 percent.

In the Northeast, CVS swept up 25 stores in a major acquisition, which included 11 deep discount stores from Supermarkets General.

All 25 stores, including the 18,000-square-foot deep discounters, were converted to the CVS format. Of these stores, 22 are in Massachusetts where CVS already had a dominant presence with 169 stores, and the remaining 24 are in New Hampshire.

Melville's chief financial officer, Robert Huth, said the acquisition would enable CVS to strengthen its position in these two markets. Many of the acquired stores had key strip center locations in areas that did not overlap with existing CVS stores, Huth said.

Sources estimate that the acquired stores also added about $90 million to CVS's total sales.

Scanner systems tested for stores

CVS is currently bench testing some scanner systems, and will probably have a "limited" in-store scanning test underway later in 1988, a company source said.

The test will mainly determine if CVS can realize any major savings by adding scanning registers to its 698 stores.

The company already gets product movement reports from its warehouses on a monthly basis and could have them weekly if they liked, so the test will have to determine if scanning can give CVS any substantial benefits beyond what the warehouses can now do.

Scanning would let CVS generate regular movement reports on approximately 15 percent of the products that do not go through the warehouse, but that information by itself might not be worth the cost of a chain-wide investment in scanning.

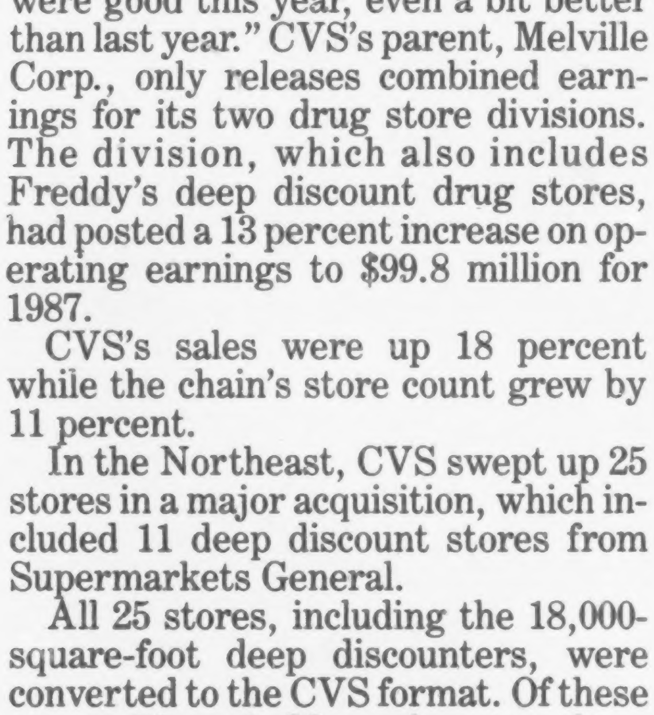
Out in California, where CVS has had an outpost of stores for the past 10 years, the chain opened another nine units for a total of 49 in that market.

CVS also opened a 200,000-square-foot warehouse 50 miles east of Los Angeles to service these stores. Management says the warehouse can support between 125 and 150 stores, and added that CVS expects to be at that level "within five years."

Before the new warehouse opened, CVS had been servicing these stores from its East Coast distribution centers.

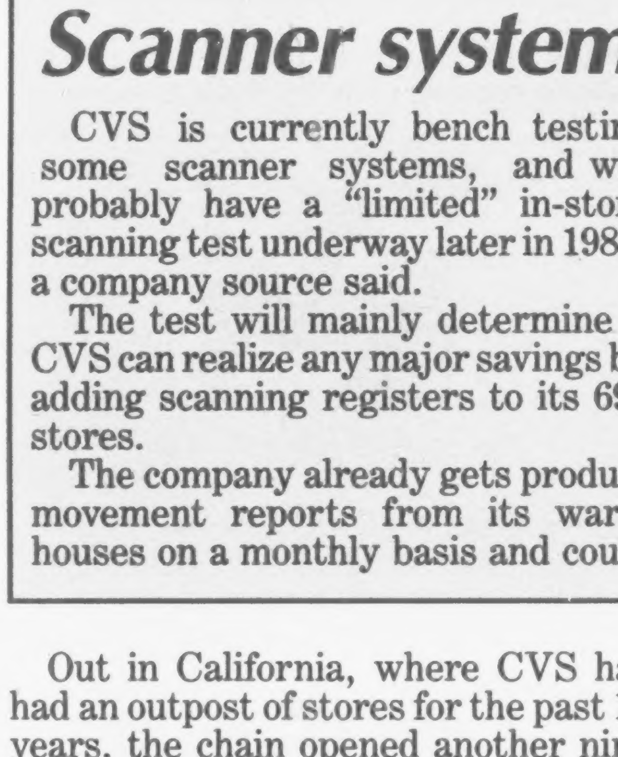
CVS management says the deliveries to the stores will not change dramatically, now that the new warehouse has opened. "We'll still service these stores once a week as we did before. What's changed is that we traded off hauling expenses for the expense of warehousing in California," a manager said.

CVS five-year sales trend
(in millions of dollars)



Source: Annual reports

CVS five-year operating income
(in millions of dollars)



Includes profits from both CVS and Freddy's Deep Discount Drug Stores.
Source: Annual Reports

In 1988, management says there probably will not be any other major acquisitions. Right now, CVS is budgeted to open between 55 and 60 stores, which is about the same number they opened in 1986.

Last year, with the acquisition, they opened a total of 69 new stores.

CVS is also planning to open another warehouse in New Jersey, either in late '88 or early '89. The new facility will be 400,000 square feet, and will service about 200 stores within a 100 to 150 mile radius.

Management says CVS doesn't plan any technological advancements for its new warehouse. Their warehouse procedures are rated 'state of the art' by most companies in the industry, and many chains say that CVS has the best shelf ordering system in the business.

Although CVS did not plan any dramatic changes in merchandising in 1987, the chain did expand its hair spray department, giving it more space and more facings. Minor decor changes were made to pharmacy to make the department "more pleasing to the eye of the customer."

CVS also designed a new fixture for private label hosiery, because as one source put it, "the old one didn't flow right. It made it hard for the customer to shop. This new fixture makes it easier."

These may not seem like very significant changes to some readers. But in CVS's case, it is not the changes *per se* that make the story, but CVS's conscientious approach to those changes.

Much of CVS's success has been built on its scrupulous attention to the small details that matter to customers. From store level on up through their management hierarchy, CVS pays attention to service.

Asked to describe the key to such success, when the obvious changes are so uneventful, one executive said CVS's success comes "from simply paying attention to our business. We try to identify what our customers want, and then put it in an environment that is pleasing to shop," he said.

This source says that in most markets, CVS has not found that it makes much of a difference if its stores are competing with combination stores, with deep discount drug stores or mass merchandise stores.

"Everyone who opens a store takes some business," he said, "but we seem to hold up pretty well. In our mall stores, we get the benefit of the traffic, and in our neighborhood stores, it's convenience and service.

"We pay attention to the details of our business, and that's what I think makes us so successful."

CVS highlights

Name: **Consumer Value Stores (CVS)**
Headquarters: **Woonsocket, R.I.**
Parent: **Melville Corp.**
Officers: **Stanley Goldstein, president Melville Corp.; Harvey Rosenthal, president CVS.**
Sales 1987: **$1.394 billion.**
Store Count: **698.**
Average store size: **7,000 square feet.**
Regions: **14 Northeastern states and Calif.**
Highlights: **Fiscal Year Sales Increased 18 percent. Opened a 200,000-square-foot warehouse** in **Rancho Cucamonga,** Calif.; and **acquired 25 stores** in **Massachusetts** and **New Hampshire from Supermarkets General.**

Pay Less reworks mix, keeps growth steady

WILSONVILLE, Ore. — Pay Less NW is placing greater emphasis on its core drug store products this year, while continuing to keep an aggressive growth pace on the West Coast.

Recently, the 260-store chain disclosed it will no longer carry grocery items in order to allow room for traditional drug store products and seasonal merchandise. While Pay Less will still carry snacks, the chain will cease carrying canned food, cereals, and boxed goods like cake mixes.

Pay Less has already stopped purchasing grocery items from vendors, but the food products will continue to appear in the stores until summer, when the chain's warehouse supply is depleted.

The move allows Pay Less to devote additional space to categories like greeting cards and stationery, while freeing up endcaps for promotional products. The chain also expects its margins will improve, and it can now skirt head-to-head grocery competition with supermarkets.

In recent months, Pay Less has been reassessing much of its merchandise mix. Changes have already taken place in domestics, sporting goods, and toys. Many of these changes were customer-generated, so Pay Less is also looking to become more flexible on a market-by-market basis.

While these product changes are taking place, Pay Less will also direct its efforts to the pharmacy business, which the company anticipates will continue to broaden its customer base. To gain this strength, the company is relying on its pharmacists to give personal service and counseling to its customers, and this emphasis is a point the chain wants to establish store-wide.

To better service its customers in general merchandise, Pay Less is considering the addition of more apparel departments in stores that provide enough room for the category. Currently, the chain has a 25,000-square-foot and a 31,000-square-foot prototype, and apparel is usually only included in the larger of the two sites, according to executive vice president Tim McAlear.

It has been with parent company K mart's help that Pay Less has been able to successfully delve into the soft goods category.

K mart has also helped the drug chain rapidly grow. At last year's annual shareholders' meeting, since-retired chairman Bernard Fauber said Pay Less would double in size by 1991. Since this time, Pay Less has added both new stores and acquired stores that it picked up from Osco and Longs.

Last year alone, the chain added 47 stores and according to McAlear, Pay Less should add at least another 30 this year. He said further acquisitions are not out of the question and "most people know we are always looking," but he said there are no current purchase plans for any stores.

While the Osco and Longs acquisitions added stores primarily in the Pacific Northwest, Pay Less' new stores are predominantly in Southern California. Regardless of the market, Pay Less typically sticks to outlying suburban areas, staying away from the competitiveness, higher advertising rates and space constraints of inner metropolitan markets.

Payless Drug
Pay Less NW opened 47 new stores in '87, and expects to open over 30 more this year.

Pay Less NW highlights

Name: **Pay Less NW.**
Headquarters: **Wilsonville, Ore.**
Parent: **K mart.**
Chairman: **Ed Hart.**
President: **Ron Schiff.**
Executive vp: **Tim McAlear.**
Sales 1987: **$1.2 billion.***
Operating profit 1987: **$65 million.***
Store count: **260.**
Average Store sizes: **25,000 square feet to 31,000 square feet.**
Region: **West Coast.**
Highlights of 1987: Parent **K mart vows Pay Less will double in size by 1991.** Pay Less **acquires 24 sites from Osco** drug stores **and two Longs locations.**

*Estimate by Shearson Lehman Hutton

Shoppers Drug Mart expands as sales improve

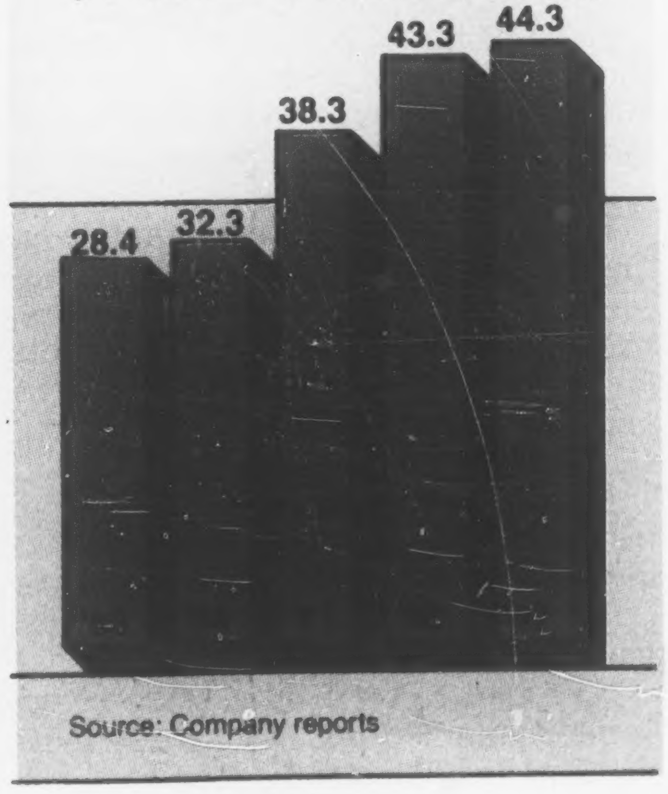
TORONTO — Shoppers Drug Mart, Canada's largest drug chain, used 1987 to consolidate.

Sales for Shoppers were up 17 percent to $1.6 billion in Canadian dollars, while operating income was up to $44.3 million.

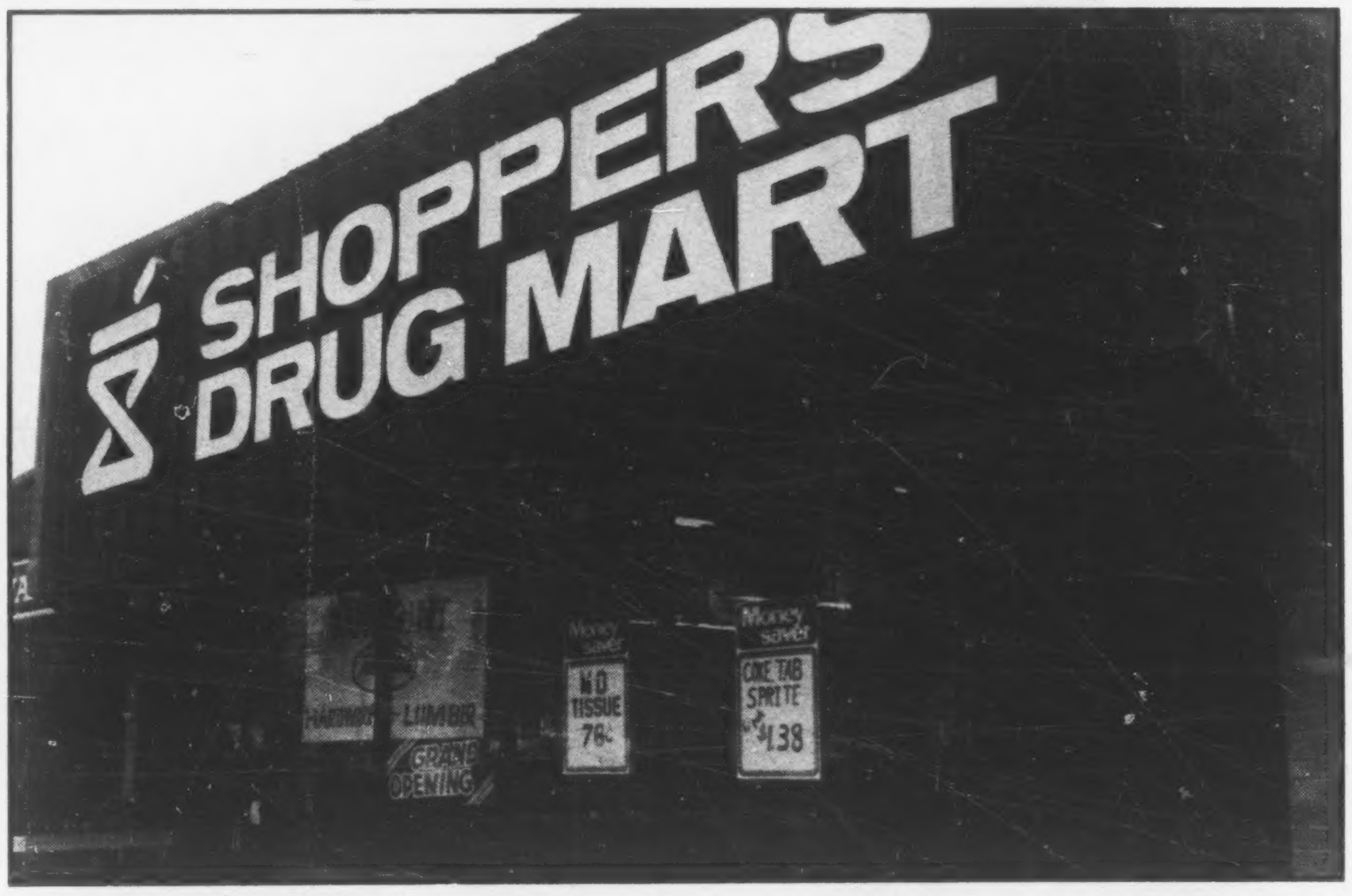
Sales this year would have been over $2 billion, but Shoppers has just changed its reporting year, switching from a fiscal year ending March 31 to a calendar year ending Dec. 31. Its 1987 year end sales, therefore, are for a nine-month period, rather than a 12-month period. The sales increases, however, are based on a year to year period measurement.

Shoppers stores are now averaging $700 per square foot compared to the North America industry average for chain drug stores of $250 per square foot.

Shoppers Drug Mart operating earnings
(in millions of Canadian dollars)



Source: Company reports



Shoppers Drug Mart has a 31 percent share of the Canadian drug store market.

Shoppers currently has a 31 percent share of all drug store sales in Canada, which means that one out of every three consumers is a Shoppers customer.

Expansion rate steady

SDM acquired 41 new franchisees and opened two new Howie's discount drug stores in 1987. Management says they will probably continue to expand in 1988 at the same rate.

In 1987, management also began converting the Ontario-based Super X stores, which Shoppers acquired in 1986 and had been operating under the Super X name, into Shoppers stores.

Their vp-public affairs, Arthur Konviser, says that in one case sales volume in a converted store "increased four times over its original base." He said volume in three other converted stores was also "up significantly."

Konviser said Shoppers will begin converting the other 71 Super X's this year. He said the conversions will be completed "as quickly as possible."

Food departments added

Shoppers also plans to continue to add convenience food departments called "Food Baskets" as well as "Home Health Care" departments to new stores wherever market conditions are "right" for such services.

In 1987, Shoppers opened six more stores with Food Baskets for a total of 16 combination food/drug stores, and opened two more stores with Home Health Care departments.

Konviser says both concepts have proven to be "very successful" for Shoppers.

"If we're in a mall with a food store tenant, and the food store closes, we might move to a bigger location and reopen the store with a Food Basket," said Bill Pacey, Shopper's vp-corporate store planning.

Shoppers is also expanding its Howie's discount drug stores, and now has 11 open, an increase of one store over last year.

However, they plan to convert the seven unit chain of Carneval discount drug stores in Quebec to Pharmaprix stores. The 51 Pharmaprix stores follow the same format as a Shoppers Drug Store, only the name is French—a cultural concession for a French-speaking Quebec.

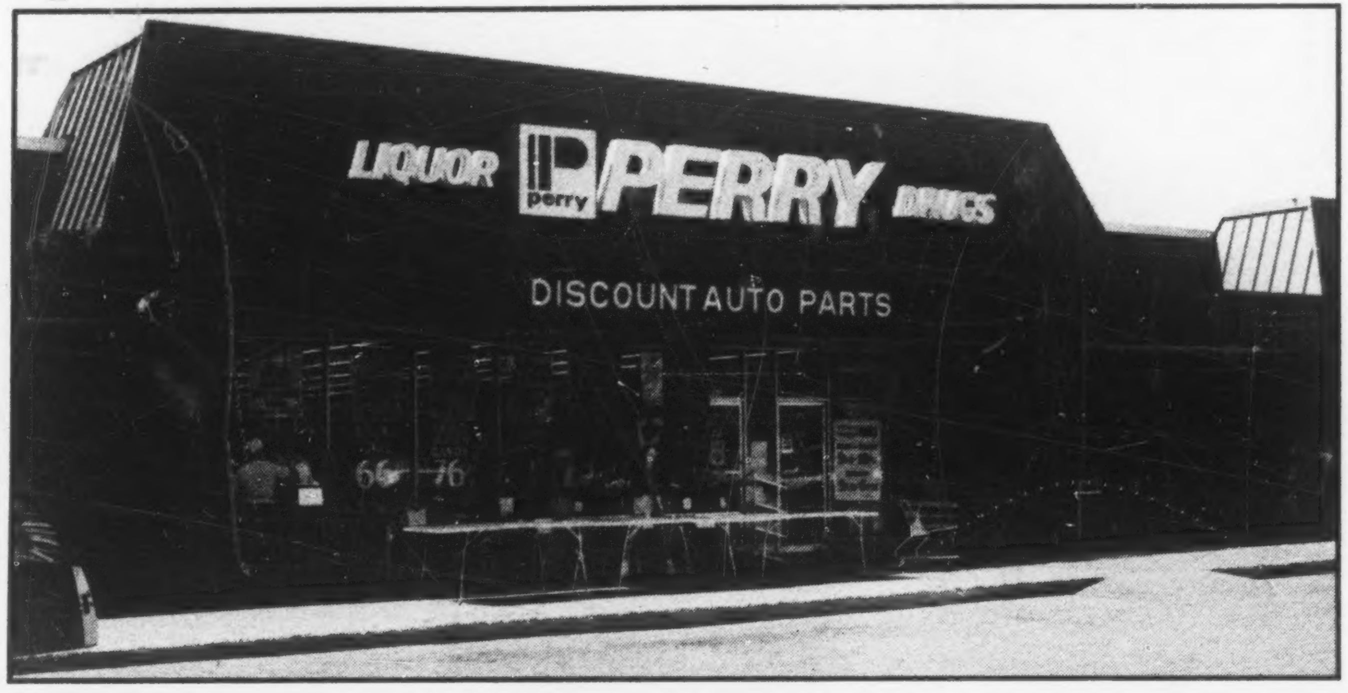
A Shoppers source said that the main reason for converting Carneval to Pharmaprix is because it will simply be "easier" for the management team in Quebec to concentrate on one chain, rather than two.

Shoppers Drug Mart highlights

Name: **Shoppers Drug Mart.**
Headquarters: **Willowdale, Ontario.**
Parent: **Imasco Corp.**
Chairman: **David R. Bloom.**
Sales 1987: **$1.6 billion in Canadian dollars,** based on a nine-month year.
Store count: **421 Shoppers, 51 Pharmaprix, 11 Howie's, and 71 Super X drug stores.**
Average Store Size: **10,000 square feet.**
Markets: **14 regions in Western and Northern Canada.**
Highlights: **Increased sales 17 percent. Opened 41 new franchised stores** and began **converting** their **Super X stores to the Shoppers prototype. Sales** in some **converted** stores have **increased "four fold."** Created **a new generation prototype for all new and retrofitted stores.**

PROFILES

Perry lightens up on the road to recovery



Softer-than-expected sales in its drug and auto parts stores contributed to Perry's losses.

PONTIAC, Mich. — Fiscal 1987 was a year the people at Perry Drug Stores would just as soon forget. The upper Midwest's largest drug chain reported a net loss of $7.9 million—the first in its 31-year history—as the high costs of its rapid expansion in recent years, combined with shrinking gross margins, overtook earnings momentum.

The profit crunch touched off a year of wrenching changes at Perry and a complete re-examination of its strategic direction. In a very short time, in fact, the chain has reversed its expansion-oriented strategy, revamped its merchandise mix in favor of basic drug store merchandise, abandoned its 252-store auto parts division, drastically cut headquarters staff and almost completely restructured its management team.

In the process, many of its veteran senior executives, including Al Wander, Don Fox, Mickey Kole and John Frazzini, have left the company. Others have been reassigned.

The sweeping management changes began with the retirement early last year of longtime Perry veteran Don Fox as president and chief operations officer, and the appointment, last June, of retail veteran David Schwartz to take his place.

Schwartz has realigned drug store operations into four groups, and also taken direct charge of support functions like distribution, security, merchandising, and advertising. His goal: a leaner, more responsive structure that is more in tune with local markets.

"Our new organization has given each group flexibility to tailor strategies to the conditions in the respective market area," Schwartz said recently.

Perry's problems, which emerged despite record sales last year of $726 million, were due to a confluence of factors. Softer-than-expected sales in its drug and auto parts stores, including a same-store sales gain of only 3 percent in drug stores, certainly contributed to the loss. High operating costs; reduced margins on prescription drugs; and other products in a heavily contested home market were also among the contributing factors.

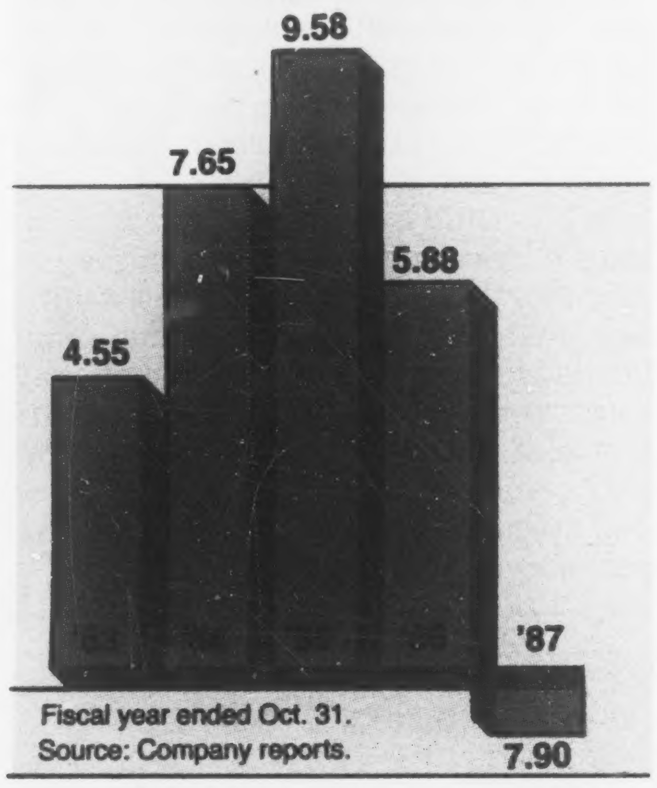
At the front end, Perry's decision to abandon high-ticket general merchandise in favor of a more basic drug store mix cut into gross profits. Meanwhile, the auto parts division had been hampered. Pressured by a heavy debt load and a softening auto aftermarket, the company struck a deal to sell its 252 Auto Works units to Northern Automotive Corp. early this year for $51 million in cash. The deal resulted in a one-time charge against earnings of roughly $11 million in the first quarter, but cut the company's $160 million debt by nearly a third.

Perry's departure from auto parts retailing—including plans to phase auto supplies out of its drug stores—also leaves the company free "to concentrate its efforts in drug stores and health care," according to company spokesman Berl Falbaum.

With its load lightened, Perry is moving quickly to turn itself around as a leaner, more concentrated drug store retailer. The chain has developed a store prototype for the 1990s which emphasizes service, shopping excitement and a high-volume, concentrated merchandise mix. The company has also shifted away from new store openings in favor of upgrading and remodeling existing stores in line with the new format.

Perry registers loss

(Millions of dollars)



Fiscal year ended Oct. 31.
Source: Company reports.

Perry Drug Stores highlights

Name: **Perry Drug Stores**
Headquarters: **Pontiac, Mich.**
Officers: **Jack Robinson,** chairman-ceo; **David Schwartz,** president-chief operations officer.
Store count: **223**
Average store size: **12,000 square feet**
Markets: **Michigan, Illinois, Wisconsin**
'87 drug store sales: **$549.9 million**
Highlights of '87: **Completed major "back to basics" remerchandising program. Instituted cost-cutting measures,** slowed expansion and upgraded computers systems to boost profitability.

Drug Emporium in clash of deep discounters

Emporium
Cam

Drug Emporium opened 23 stores in 1987, for a total store count of 139.

WORTHINGTON, Ohio — Drug Emporium, the nation's largest deep discount drug store chain with an estimated $800 million in sales for fiscal year '88, faces stiffer competition in the coming years as it goes head-to-head with Phar-Mor, F & M, and other deep discounters in more markets.

In 1987, the deep discount leader found itself in direct competition with F & M in two markets, Milwaukee and Indiana, and with Phar-Mor in seven, including its hometown of Columbus.

Executive vp Gary Wilber said the one-on-one rivalries "are and aren't" putting increased pressure on affected stores.

"In some stores, yes, our sales were flat temporarily. But in other stores, it hasn't happened. Either we attract new customers or the old ones just come back."

He views the higher profile of deep discount operations in new markets nationwide as educating consumers to the benefits of shopping deep discounters.

"It's possible that when you have two or three deep discount stores in a concentrated area, you may actually be building your base of customers, and so we all may be benefiting," Wilber said.

He sees deep discounters as drawing the bulk of their traffic from food stores, conventional drug stores and discount stores, with food stores suffering the most when deep discounters enter a market. "Today, food stores have the dominant share of many H&BA category sales, and when we open, we think we take a lot of their business."

Although aware that the aggressive expansion and financial clout of such operations as Phar-Mor and F & M may result in one or both overtaking Drug Emporium in dollar sales by the end of the decade, Wilber said the chain won't try to force growth "at the expense of our bottom line."

"You've got to run your own business," he said. "Obviously, the first chain going into a market has an advantage, and we'd like to be the first in everything. But you don't want to outstrip your ability to grow, either financially or in management.

"We're going to be aggressive, but not overly aggressive," he continued. "We're not going to be sitting back and watching the world go by, but our planning will be for what we can handle, and we will continue to grow without disrupting what we already have."

Drug Emporium opened 23 stores in 1987 and recently opened additional units in Philadelphia and Cincinnati, for a total store count of 139 to date. New markets it entered last year included Mobile, Ala., Albuquerque, N.M., and Nashville and Knoxville, Tenn.

It plans to open 30 to 40 units this year, about equally dispersed among franchised and company markets. Although expansion will "quite possibly include some new markets," the chain will concentrate primarily on filling in existing markets in '88.

Currently, about 40 percent of Drug Emporium stores, which average about 25,000 square feet in size, are company owned, a ratio the chain plans to maintain, Wilber said.

The chain operates on an average 18 percent gross margin, and buying is decentralized.

Sales volume per store averages about $5.8 million, but "that average is misleading. It has to do with the age of the store," Wilber said. Some stores do volume up to $10 million.

The chain's primary customers continue to be women ages 20-54, with incomes of over $25,000. Pharmacy, which is present in all stores, accounts for about 15 percent of volume, H&BA about 50 percent, and cosmetics about 15 percent.

Recently, Drug Emporium began installing IBM RT personal computers in its pharmacies, with plans to cover at least 100 stores in the next 1½ years.

"We had a very successful year," Wilber summed up. "And we're looking forward to a strong year."

Drug Emporium highlights

Name: **Drug Emporium.**
Headquarters: **Worthington, Ohio.**
Chairman: **Philip Wilber.**
Sales: **$800 million** (estimated)
Store count: **139.**
Average store size: **25,000 square feet.**
Regions: **Ala., Ariz., Calif., Fla., Ga., Ind., Kan., Ky., La., Md., Minn., Mo., N.J., N.C., N.M., Ohio, Pa., S.C., Tenn., Tex., Va., Wash., W.Va., Wis.**
Highlights: **Maintained position as largest deep discount drug chain** in **sales volume; opened 23 stores,** including penetration of new markets.

PROFILES

Phar-Mor continues aggressive growth rate

YOUNGSTOWN, Ohio — Phar-Mor is continuing its aggressive growth rate this year, taking the 74-store deep discount drug chain into at least four new states while also filling in existing markets.

During the past year, Phar-Mor doubled in size and made major inroads on some established markets like Chicago, Fort Wayne, Ind., Augusta, Ga., Raleigh and Durham, N.C., and Mobile, Ala. In Chicago, the chain quickly opened six stores, placing it directly against rival deep discounter F&M, Walgreens, and Osco.

Despite this competition, Phar-Mor director of advertising Carol Robinson said the chain felt there was still plenty of market potential in the city and surrounding suburbs. To carve its piece of the Chicago-area pie, Phar-Mor blitzed the market with its typical heavy dose of radio, television, and print advertising.

day
PHAR-MOR
BUYING POWER
PHAR-MOR's Power Buying Gives You Far More Buying Power
Save Up To 50% Everyday
Pantyhose
50

Grand opening for Evanston, Ill., Phar-Mor drew large crowds thanks to ad blitz.

Unlike many deep discount drug stores, Phar-Mor advertises heavily with big grand opening events and a year-round continuity campaign. The chain seeks to distribute these costs by clustering its stores in key markets.

While Phar-Mor's typical 45,000-square-foot to 55,000-square-foot stores carry everyday low prices, the chain runs additional grand opening specials to attract shoppers away from the competition.

For the opening of its Evanston store, just north of Chicago, Phar-Mor offered $5 off on new prescriptions, doubling of manufacturers' coupons up to 50 cents, free enlargements with film developing, and free t-shirts, hats, and two-liter bottles of Coke.

Phar-Mor plans to continue its assault on the Chicago market with the opening of a 52,000-square-foot store within the city itself this October. While the site will place Phar-Mor in the new Riverpoint Center, Robinson said most of Phar-Mor's growth is in strip centers.

This past year the chain also tested telemarketing in several cities, allowing Phar-Mor to engage in direct-to-consumer marketing. However, the campaign—the first known use of telemarketing at the drug store industry level—is no longer being employed by Phar-Mor, according to Robinson.

Instead, the direction this year is on an aggressive growth pace. To help finance the expansion, Phar-Mor obtained a $50 million line of credit from Westinghouse Credit Corp. last fall. The financing allows Phar-Mor to draw on the funds over a 24-month period on an as-needed basis, which allows the chain to avoid paying interest costs on any unused portion.

Backing the financing was 10-year senior subordinated notes and warrants for the purchase of an undisclosed amount of Phar-Mor stock by Westinghouse.

With this capital behind it, Phar-Mor plans to open 50 stores this year and 50 stores in 1989, according to company president and chief operating officer Michael Monus.

While some of this year's growth will work to fill in current markets, Robinson said the company will also enter Wisconsin, Iowa, Kentucky, and Texas for the first time. However, she added that Phar-Mor is not limiting its growth to just these areas; it is also looking in other cities, such as Denver.

Phar-Mor highlights

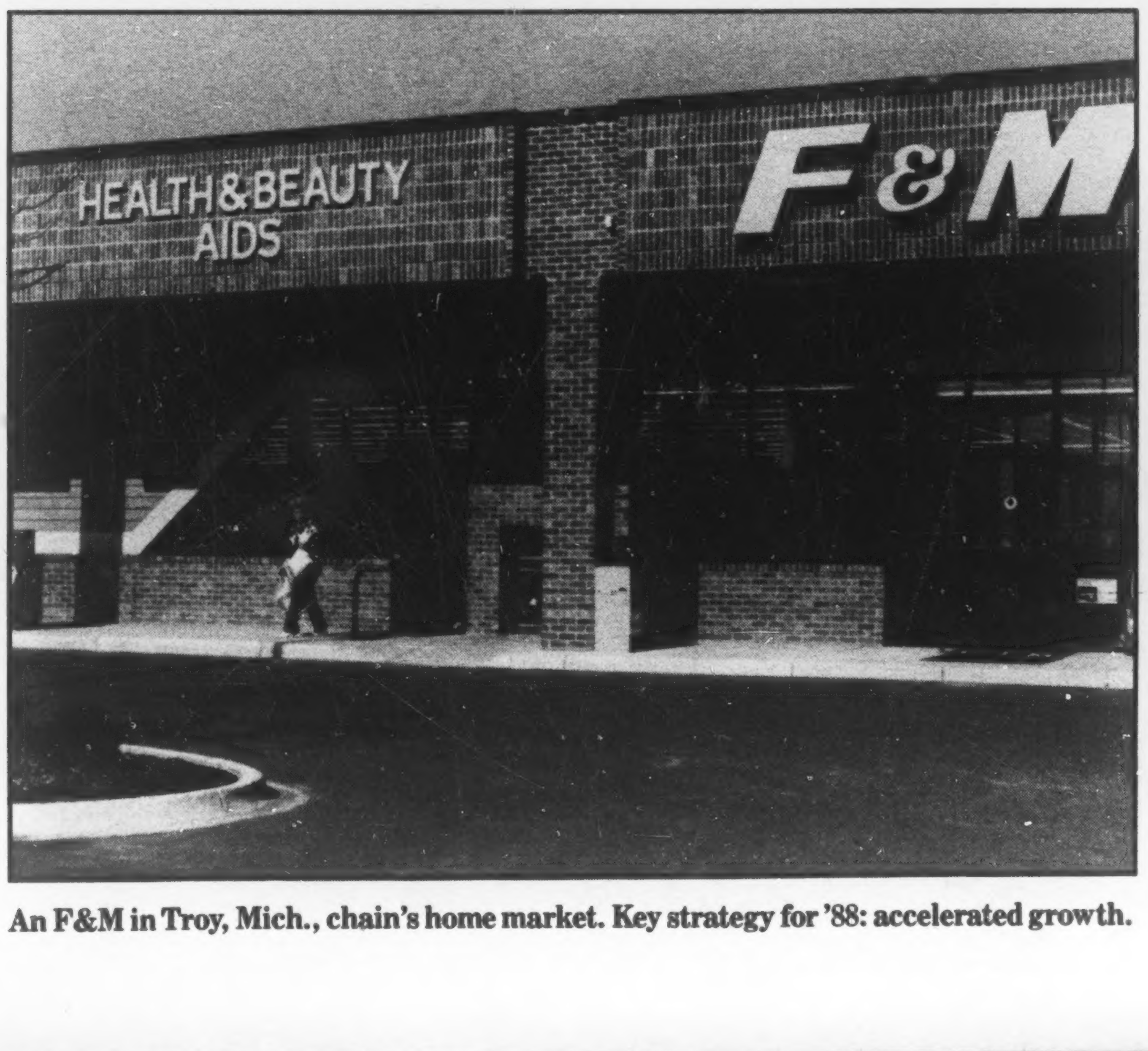
Name: **Phar-Mor**
Headquarters: **Youngstown, Ohio**
President and chief operations officer: **Michael Monus**
Fiscal 1987 sales: **N/A**
Store count: **74**
Average store size: **45,000 square feet to 55,000 square feet**
Primary operating markets: **Chicago and Pittsburgh**
Highlights of '87: **Phar-Mor moved into the competitive Chicago market** during 1987, placing it against chains like F&M, Walgreens and Osco. One of the fastest growing deep discounters, Phar-Mor **doubled in size** during 1987.

F&M Distributors muscles into new markets

WARREN, Mich. — F&M Distributors did a lot of growing up in 1987. The deep-discount retailer doubled its store count to 54 units, nearly doubled its sales to $330 million, leaped into some of the nation's biggest markets through two key acquisitions, and doubled its market penetration in Chicago through both acquisitions and new store openings.

The chain's biggest single coup last year was the purchase of Supermarkets General Corp.'s Pathmark Super Drug off-price division in October. The 10-store operation—including nine stores already in operation and a 10th under construction—gave F&M immediate entry into major East Coast markets like Baltimore and Tidewater, Va., and put it within what chain president and ceo Frank Newman called "easy reach" of Philadelphia and Washington, D.C. Newman said the chain will capitalize quickly on those opportunities.

"We have the advantage of not having to start from scratch in those markets, since Pathmark has already spent considerable time educating consumers on deep discounting," Newman said after the purchase. "The stores are also very close to our average prototype, at 25,000 to 29,000 square feet."



An F&M in Troy, Mich., chain's home market. Key strategy for '88: accelerated growth.

With stores in Virginia, Maryland and upstate New York, Pathmark Super Drug also gave F&M the chance to extend its reach far beyond its traditional markets in the Midwest and East Central regions.

Closer to home, F&M pulled off a key acquisition in Milwaukee and Chicago. In Milwaukee, the chain bought three former Designer Depot stores from K mart, giving it access for the first time to that city. Newman called the move a logical extension of F&M's reach north of Chicago, and he characterized Milwaukee as an ideal market for the chain, "with consumers who are serious about their shopping."

In Chicago, F&M doubled its store count in 1987 to 17 stores, including four within the city limits. In addition to new stores, the chain acquired the three-unit Castle Distributors operation in Chicago's north suburbs, closing two marginal units and converting the most productive store to its format.

F&M's growth has come rapidly, but only after extensive preparation. In 1986, Newman instituted a series of steps designed to beef up the chain's organizational structure in support of an accelerated growth strategy. Then and now, Newman's goal was to operate at least 100 off-price drug and H&BA stores by 1990.

To gear up for its growth from a regional operator in Southern Michigan into a multi-state retail power, the chain boosted internal operating controls, doubled its warehouse space and added to its headquarters and store management staff. Newman also spearheaded the development of a tighter, more focused F&M store prototype, with greater control by headquarters over merchandising and fixturing, and a far tighter mix.

In so doing, Newman and other planners stripped the stores down to their essential ingredients: H&BAs, cosmetics, household products, snack foods and a few other core categories. They eliminated most electronics, toys, hardware and other "fringe" categories in favor of a more concentrated image to draw, with a clear message, the upper-middle-income, mostly female shoppers F&M cultivates. Pharmacies are present in about half the chain's stores, but only where market conditions justify them.

F&M highlights

Name: **F&M Distributors**
Headquarters: **Warren, Mich.**
President and ceo: **Frank Newman**
Sales: **$330 million**
Store count: **54**
Store size: **25,000 to 29,000 square feet**
Markets: **Ill., Ind., Mich., Ohio, Md., Va., Upstate N.Y., Wis.**
Highlights of '87: **Doubled store count** to 54 en route to becoming a 100-store chain by 1990. **Doubled penetration in Chicago, entered Baltimore, Milwaukee and Tidewater, Va., via acquisition.**

PROFILES

Hook-SupeRx embarks on acquisition trail

CINCINNATI — Hook-SupeRx (HSI) surprised the industry when it announced it wanted to buy Brooks Drug and move into New England markets.

The plan would create the country's fifth largest drug chain, just one year after a management team bought 686 Hook and SupeRx stores from Kroger for $415 million. The purchase would combine Hook-SupeRx's $1 billion estimated annual sales with Brooks' $500 million, and create a chain with over 1,000 stores in 24 states.

Sources last month said HSI was close to a final purchase agreement with Brooks' owner, Compact Video, which is 41 percent-owned by MacAndrews and Forbes.

The planned buyout of the 361-store Brooks chain raised a host of questions, including how HSI—already heavily in debt from the LBO—would pay for it.

HSI has already used bank loans, high-risk bonds, and investor equity in its LBO, including heavy equity investments from Kroger and Goldman Sachs, and loans from a consortium of banks.

Yet few answers were offered as the purchase unfolded, as HSI continued a policy of limiting public comments. The company has been tight-lipped about its plans in general. Sources say that stems from chairman Philip Beekman's desire to limit announcements until he is acclimated to the drug industry, and maps out a clear future course. Beekman is a former president of Joseph E. Seagram & Sons.

The planned merger also raises the question of whether Brooks' business practices and plans will be left intact.

A Hook prescription counter. Uniform pricing store-to-store is a chain hallmark.

Brooks has launched reforms over a broad front since M&H bought the stores. They've centered on reforms to merchandise mix, a distribution system upgrade, and appointments to high posts of new executives.

Also unclear is whether any of Brooks' assets, covering 10 states, will be sold to help pay the cost.

Gayl Doster, HSI's vp of finance and an investor in the HSI LBO, reportedly will become Brooks' president, and Theo Folz, Brooks' chairman and ceo, will return full time to Consolidated Cigar, another M&F affiliate.

The bid for Brooks followed a $6.6 million purchase of 19 Eckerd stores in Virginia and West Virginia.

HSI's aggressive acquisition strategy came at a time when its existing stores were facing new challenges. Hook's exceptionally strong franchise in Indianapolis and surrounding markets was threatened by some of the country's best deep discount chains, Drug Emporium, F&M and Phar-Mor.

Market sources said Hook has been tapering its store growth in Indianapolis, forfeiting sites to chains such as Peoples, which added 10 stores in 14 months in the greater Indianapolis market.

Hook, though, has relied upon a reservoir of shopper loyalty and the continuity of a strong management group. Its Indianapolis market share pushes the high 60th percentile.

Hooks' centralized approach leads to 88 percent of merchandise coming from an Indianapolis warehouse, and uniform pricing for all stores.

In an ongoing store renovation program, SupeRx is favoring a look it unveiled in 1986 in a Nashville race track unit, according to market sources.

Changes include lowering gondola heights and adding categories such as home health care while paring some sundries. The stores average 10,000 square feet

In a filing with the Securities & Exchange Commission on nine-month results ended Aug. 31—HSI's first public revelation since the buyout—HSI said sales and operating targets were being met. Nine-month sales were $831 million, with same-store sales up 4.9 percent.

The company was left with $10.3 million in working capital after using other cash flow from operations to retire short- and long-term debt, and capital investment.

In the nine months, it said Hook opened eight stores and closed two, ending with 341. SuperRx opened three and closed three units, ending with 313, and 12 Drug World deep discount stores.

The chain underlined its commitment to the strong home health care store business built by Hook. It launched two new 6,000- and 6500-square-foot convalescent aids centers in Nashville, Tenn., and Bowling Green, Ky., raising its home health store total to 30 units.

The stores carried a "Hook-SupeRx" logo, in line with a new policy to use the dual name in markets where both chains have a presence.

Hook-SupeRx highlights

Name: **Hook-SupeRx Inc.**
Headquarters: **Cincinnati, Ohio.**
Chairman: **Philip Beekman.**
Executive vps: **Gary Hendren, SupeRx** division; **Newell Hall, Hook** division.
Sales: **nine months ended Aug. 31; $831 million.**
Store count: SupeRx, **313;** Hook, **341.**
Average store size: SupeRx, **10,000 square feet;** Hook, **7500 square feet.**
Regions: **SupeRx—Midwest, Mid-Atlantic, and South; Hook—Midwest zone centered on Ind., Ohio, and Ill.**
Highlights: **HSI plans to buy Brooks Drug** and **enter New England** for the **first time.** It follows **a purchase of 19 Eckerd units** in **Virginia** and **West Virginia for the SupeRx** division.

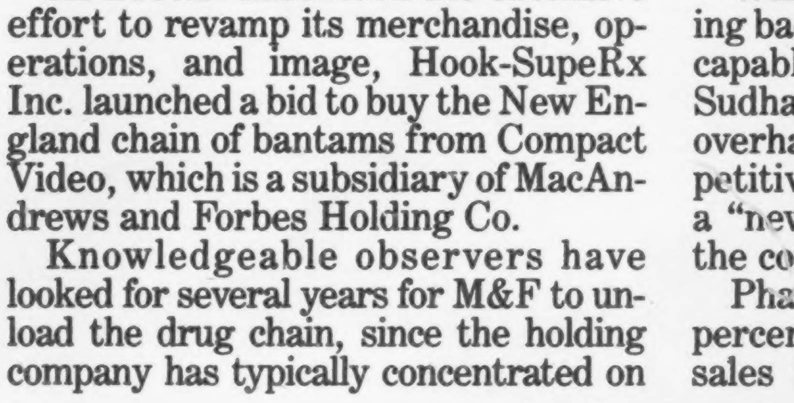
Brooks pins its hopes for future on prototype

PAWTUCKET, R.I. — Brooks Drug unveiled a new prototype in early 1988, a symbol of its hopes for the future.

Store reformatting—which will involve a major overhaul of the merchandise mix—surfaced after a year of upheaval as the 361-store chain attempted to rebuild its competitive edge and restore profitability.

As Brooks undertook the extensive effort to revamp its merchandise, operations, and image, Hook-SupeRx Inc. launched a bid to buy the New England chain of bantams from Compact Video, which is a subsidiary of MacAndrews and Forbes Holding Co.

Knowledgeable observers have looked for several years for M&F to unload the drug chain, since the holding company has typically concentrated on larger non-retail businesses, and hasn't seemed strongly committed to retailing.


A Brooks Drug pharmacy. Chain's private label program has been recast.

Yet M&H seemed ready to back a push to revitalize Brooks when William Sudhaus was named president and ceo in December 1985. Sudhaus replaced James Salmanson, who resigned, ending his family's 53-year association with the chain, formerly known as Adams Drug.

While Sudhaus lacked a drug retailing background, analysts said he was a capable executive from M&F's ranks. Sudhaus quickly began directing an overhaul. His plan included more competitive pricing, consumer polling, and a "new look" for Brooks centered on the convenient health care theme.

Pharmacy sales—accounting for 30 percent of total sales, and 36 percent of sales in stores with pharmacies (85 percent of total)—began to climb.

Sudhaus recruited extensively from Northeastern competitor CVS, bringing in the top executives who now run the chain. They include John Jennings, executive vp-marketing, Gary Mercer, executive vp-store operations, and Richard Morrissey, vp-merchandising.

Brooks sold 10 percent of its stores under Sudhaus, ending with 375.

Thoughts that M&F might reform the chain for its own use dissolved abruptly in July, when Sudhaus was replaced as ceo and president by Theo Folz, Brooks chairman. Like Sudhaus, Folz lacked a retail background, and his appointment, while he also kept the chairmanship of sister company Consolidated Cigar, led to speculation that the chain was being prepared for sale.

The view was confirmed in December with the announcement of the preliminary pact to sell to Hook-SupeRx.

HSI and Compact Video were reportedly close to a final agreement on a sale which will launch the Cincinnati and Indianapolis-based chain into New England markets for the first time.

By year's end, Brooks had closed or sold off 41 underperforming stores, and said growth will begin in 1989, with a 5-percent gain in units, accelerating to 10 percent in subsequent years.

Sources at both chains have said they don't expect HSI to dismantle the basic structure of Brooks' broad repositioning campaign.

Gayl Doster, HSI's vp-cfo, will be named president of Brooks.

Brooks launched three of its prototype units by March 1988, including one in Plainville, Mass. (7,000 square feet), one in Ipswich, Mass. (10,000 square feet), and one in Hampton, N. H.(8500 square feet).

The goal is to have a store that supports convenient access and egress, and exhibits an open, uncluttered look. Floor displays will be sharply cut back.

Company officals said all stores could be reformatted in the next five to six years.

The stores carry 15,000 SKUs—Brooks' average—but 6,000 of them have been changed, with emphasis on the core drug, H&BA, cosmetics, stationery, and candy categories.

General merchandise and hard goods are heavily reduced, including imported goods, toys, hardware, and housewares.

The private label program has been recast. A new quality assurance program was planned, and a plethora of labels and styles will be consolidated under one Brooks brand look.

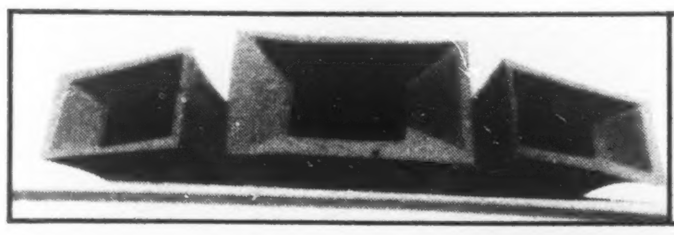
Main decor colors of gray and maroon inside give way to a red and white exterior, with a store-length awning.

Curved surfaces on window frames, and on a overhanging marquee at the pharmacy, help create a "soft" comfortable look.

Other reforms include: completion of conversion to the Brooks name and logo from the old Adams Drug title, stepped up installation of pharmacy computers with a chain-wide rollout in the first half of 1988, and a modernized warehouse merchandise ordering system that uses warehouse-generated shelf labels.

Brooks' highlights

Name: **Brooks Drugs**
City: **Pawtucket, R. I.**
Chairman, president, and ceo: **Theo Folz**
Sales: **$395.7 million** for 1987
Stores: **361**
Average size: **7,000 square feet to 10,000 square feet**
Regions: **New England, New York, Pennsylvania**
Two highlights: **Bill Sudhaus** was **removed as president** after launching a broad reform push, and after hiring top execs from CVS. **Hook-SupeRx, Inc.** announced a tentative pact to buy the chain from **Compact Video.**



PROFILES

Pay 'n Save striving for turnaround in 1988

SEATTLE — Disappointing results in Pay 'n Save's latest quarter indicate the road to recovery may be long for the drug and discount store chain.

The company fell from a $279,000 gain in first quarter 1987 to a $1.2 million loss in the present period. While this loss was better than the fourth quarter $8.9 million loss, without an extraordinary gain, the first quarter loss would have been close to that figure at $7.8 million.

Sales rose 13 percent to $226 million, with the 109-store Pay 'n Save drug stores accounting for $150 million and the 37-store Bi-Mart membership discount stores the rest.

Sales trend upwards

Indeed, sales improved the past two quarters, largely from merchandising changes. After placing close-out specials and numerous low-end import merchandise in the stores in late 1986, Pay 'n Save righted what customers' viewed a definite wrong, and the stores returned to a true drug store image last year. With all stores recast by late summer, the chain then launched an aggressive advertising campaign to trumpet its changes.

COSMETICS
REVLON
REVLON
MAX FACTOR

A cosmetics department in the Burien, Wash., Pay 'n Save.

While the advertising did help boost sales, it also cut deeply into margins. Reducing the advertising costs and finding other dollar-saving cuts is now a key goal for Gerald Nathanson, chief executive officer and president.

Nathanson will be able to pull on the experience of several new executives who joined the chain in mid 1987. From Osco Drug, Pay 'n Save picked up Haven Ready as its senior vice president of operations and stores, while hiring Ed Cooney as senior vp-human resources, a former employee of Stop & Shop's Bradlees division. Other new executives included Ron Matasich, vp-controller, Paul Landes, divisional merchandise manager-warehouse rebuying and Fred Gates, vp-regional manager, Hawaii.

Five new stores eyed in '88

In 1988, the chain plans to open two full-sized stores and three downsized Limited stores, which help Pay 'n Save fill in markets.

Pay 'n Save will also continue to refine Limited, an effort begun last year to help the chain dominate its markets by opening up additional smaller sites. Currently the company is operating six Limited stores, averaging about 6,500 square feet, and featuring a strong core drug category presentation. Much of the growth for the Limited concept in 1987 came through the acquisition and moderate remodelling of six former G. O. Guy drug stores from Bonanza Stores.

While numerous changes have kept Pay 'n Save busy during the past 12 months, Bi-Mart has been a strong mainstay for the company and continues to provide steady growth in both store count and sales.

During 1987 the Eugene, Ore.,-based division opened four stores and in the first quarter Bi-Mart opened two additional sites.

Increasing its viability in the market, Bi-Mart introduced a new prototype in late 1987 and the company will continue to roll out this updated version this year. At the same time, the company installed cosmetic centers in several of its stores, greatly increasing Bi-Mart's previous small-scale offering.

Pay 'n Save highlights

Name: **Pay 'n Save Inc.**
Headquarters: **Seattle, Wash.**
President, ceo: **Gerald Nathanson.**
Stores: **109 Pay 'n Save** drug stores; **37 Bi-Mart** membership discount stores.
Earnings 1987: **$26,828,000 (loss).**
Sales 1987: **$726,131,000.**
Size: **22,000 square feet, (17,500 square feet selling).**
Main markets: **Pacific Northwest;** largest concentration in the Puget Sound (Seattle area).
Highlights: After a short-lived and unsuccessful closeout merchandising strategy failed, **Pay 'n Save recast its stores and returned to its drug store image.** Pay 'n Save **launched its small-sized Pay 'n Save Limited concept** to reach new markets and fill in existing areas.

Fay's multifaceted program boosts earnings

LIVERPOOL, N.Y. — Fay's Drug launched a multifaceted program last year to raise profits, and has succeeded so far. Brisk earnings growth for the chain based here has resulted from new warehouse space, a lower percentage of immature stores, and a new pricing and promotion strategy.

Fay's posted record per-share earnings in the fourth quarter ended Jan. 31, its seventh straight quarter of earnings growth, and the second year of solid improvements after earnings had slumped to $2.8 million in 1986.

Earnings for fiscal 1988 were $5.9 million, or 45 cents per share, compared with $4.1 million, or 29 cents a share in the prior year. Fourth quarter earnings were $3.7 million, or a record 29 cents per share, compared with $3.39 million or 24 cents a share in the year-earlier Christmas quarter.

The sales came on Fay's first half-billion dollar sales year. Revenues of $500.4 million were up 10.6 percent from last year, with fourth quarter sales of $141.3 million, up 11.2 percent.

Fay's heavily-promoted prescription business and its AccuFay's pharmacy computer system contributed. Indeed, Henry Panasci, Jr., Fay's chairman, said the year's prescription drug sales were up 17.8 percent. The chain has posted an average annual prescription growth rate of 13 percent over the past 10 years.

Fay's posted strong gross margins as it built profitability, held margins, and rebuilt sales.

Its third-quarter gross margin, for example, was 27.8 percent, compared with 23.7 percent in the previous year's quarter, as it weeded out low-profit items in its promotional mix and gained buying advantages from a 300,000-square-foot warehouse addition. Fay's was able to virtually eliminate expenditures for outside storage and take advantage of deal buying.

This summer, Fay's launched a strategy of holding margins on ad merchandise while cutting some promotional item prices in order to build sales momentum.

Panasci also said that Fay's is committed to its Paper Cutter office supply stores and Wheels auto parts stores, which are becoming more profitable.

Fay's opened seven Paper Cutter stores, with expansion centered in Albany, Syracuse, and Buffalo. It ended the year with 12. It built the Wheels division to 15 units after opening two in Albany and Syracuse.

Plans calls for opening seven more Paper Cutters and six Wheels in calendar 1988. David Panasci, formerly vp of merchandising and development, was named president of the Paper Cutter division.

In March Fay's said it had 161 drug stores in New York, Pennsylvania, Connecticut, and Massachusetts, including two opened since the end of the fiscal year. Fay's plans to open 12 super drug stores in 1988.

The chain's stock of stores under three years old that don't contribute to earnings topped 40 percent two years ago, and was a main contributor to the slumped profits of 1986. A more deliberate expansion strategy reduced the ratio to 37 percent in 1987.

It was a year of significant change in top management, led by the appointment of Larry Rose, the former executive vp of marketing, merchandising, and distribution at Thrift Drug, as Fay's new president and chief operations officer. Rose was named after a 10-month search, and Panasci said his background in all facets of drug retailing will be brought to bear.

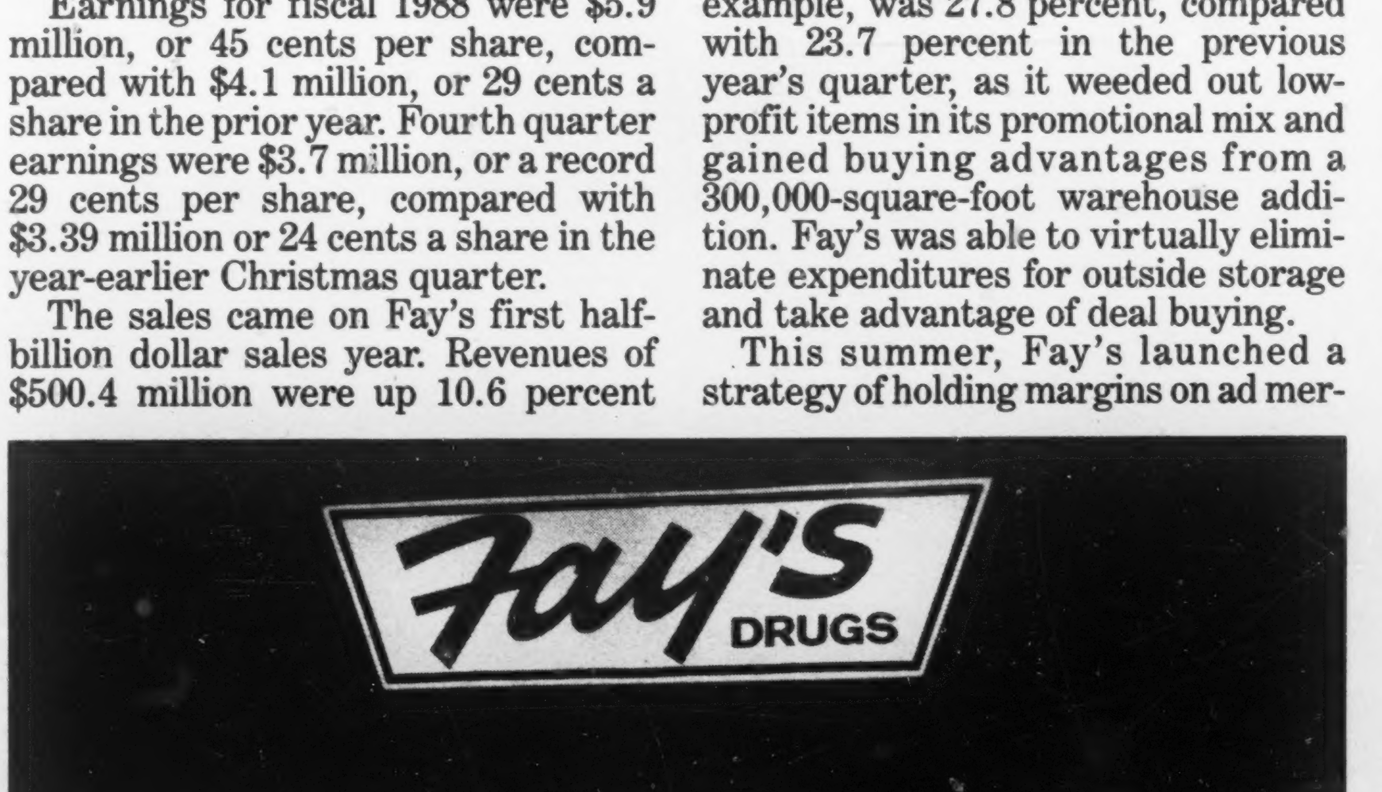
Rose's assignment followed the installation of Dan O'Leary as vp of finance and cfo. Rose, O'Leary, and Warren Wolfson, vp and general counsel, were elected to the board.

Projecting strong growth in demand for prescriptions, Fay's will develop whatever approaches are needed to capture this business, Panasci said.

"It is projected that by 1989, due to the aging of the population, advances in drug-related treatments, and mandated reductions in hospital stays, the number of prescriptions filled will grow to 2.7 billion. That's an 80 percent increase over 1986 levels," Panasci noted.

Fay's opened its first pharmacy in a medical center building in Syracuse, N. Y., early this year as part of a plan to expand its pharmacy services. It offered a limited front-of-store selection of OTC, H&BA, cards, and candy. It also contained Fay's first prepared intravenous medication program, which was planned for roll out into three conventionally-sized and sited drug stores serving nursing homes in Albany, Rochester, and Buffalo, N.Y.

Fay's was already committed to the nursing home business. Its sales into 8,000 nursing homes grew to 4 percent of total prescription sales in 1987. Fay's also opened its first pharmacy in a nursing home in a Syracuse suburb.



A Fay's Drugs unit, located in Cicero, N. Y.

Fay's highlights

Name: **Fay's Drug Co., Inc.**
Headquarters: **Liverpool, N. Y.**
Chairman: **Henry Panasci, Jr.**
President: **Larry Rose.**
Sales: **$500.4 million.**
Store count: **drug stores, 161; Paper Cutter office supply stores, 12; Wheels auto parts stores, 15.**
Average drug store size: **15,000 square feet.**
Regions: **N. Y., Mass., Pa., and Conn.**
Highlights: **Larry Rose, of Thrift Drug joins Fay's as president and chief operations officer** as part of a series of new top officer appointments. **Fay's posted its seventh consecutive quarter of improved earnings** as it planned growth in its drug, office supply and auto parts businesses.

PRODUCTS

A 'quiet' year for Duane Reade: Sales up 20%

LONG ISLAND CITY, N. Y. — Duane Reade, the only major drug chain in people-packed Manhattan, has been quiet this past year.

Quiet like a fox. Duane Reade opened four stores and generated a 20-percent increase in dollar sales. There are now 30 stores in the chain, with just one outside Manhattan, in Brooklyn.

The average Duane Reade store produces more than $6 million annual sales. Through its bantam stores that average about 5,000 square feet, Duane Reade is maximizing its dollar sales per square foot better than any other chain in the industry.

Part of the chain's success has always been its high traffic locations. Duane Reade does not look for neighborhood store locations as a Walgreens or Rite Aid does. Duane Reade looks for street traffic, and it builds stores in neighborhoods where office workers, tourists, business people, and government employees assemble.

Duane Reade also doesn't advertise to pull the business in off the street. Instead, it uses its windows to display leading brands at substantial discounts. These lure shoppers inside the store, where impulse displays build the business.

A lot of merchandise is bought on deal and stacked in the chain's 130,000-square-foot warehouse in Long Island City. The warehouse, which is completely computerized, handles approximately 80 percent to 85 percent of all the mix in a Duane Reade store.

Duane Reade highlights

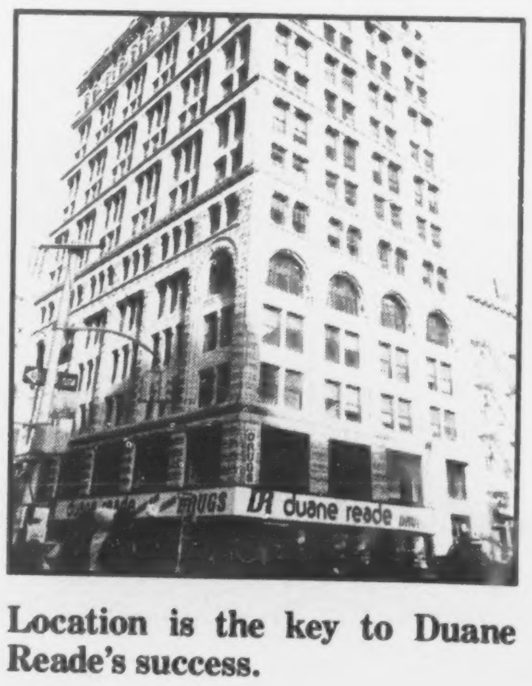
Name: **Duane Reade.**
Headquarters: **Long Island City, N. Y.**
Chairman: **Abraham D. Cohen.**
President: **Eli Cohen.**
1987 sales: **$ 200 million.**
1987 store count: **30.**
Average store size: **5,000 square feet.**
Market: **New York City.**
Highlights, '87: **Opened four new stores, increased sales 20 percent;** average store sales now exceed $6 million.

This year, Duane Reade is expanding that warehouse by approximately another 30,000 square feet.

In New York, their management is never able to know exactly how many new stores they will open in a given year, because site acquisition activity depends on the economy and real estate costs, but a source says Duane Reade is prepared to open as many as four more stores in 1988, just as they did in 1987, "if the right opportunities present themselves."

There will not be another Brooklyn store, the source says, even though the existing unit has been "phenomenally successful." Brooklyn, which is really a city of little neighborhoods, does not have the locations Duane Reade needs to build $6 million stores.

Their one existing Brooklyn store is an exception because it is in an open-air mall downtown on Fulton Street in an area that has plenty of tourist and commercial traffic.



Location is the key to Duane Reade's success.

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Arbor lays groundwork for Michigan market gains

TROY, Mich. — Arbor Drugs' central offices are much like Arbor drug stores: strikingly clean and uncluttered, visually appealing and colorful. Both reflect the tastes and retail philosophy of Arbor's founders, chairman and chief executive Eugene Applebaum and president Max Ernst.

At Arbor's spacious new headquarters, the almost minimalist decor serves to highlight a serious collection of modern art, which is Applebaum's passion. In the company's spotless drug stores, the wide, clutter-free aisles, bright colors and tight merchandise focus highlight one of the most appealing and effective store formats in the industry.

Arbor's approach—staying close to the business and merchandise it knows best, with full service, attractive stores and competitive pricing—has produced a high-volume store format and moved the chain into strong second place in Southeastern Michigan drug retailing, just behind Perry Drug Stores. The chain is well ahead of the industry average in per-store sales, at $3 million plus; in sales per square foot, at $336; and in average inventory turns, at 6.5.

The purchase in 1986 of 19 Sentry Drug Stores—17 of which were kept open and extensively remodeled—also helped boost total sales 42.1 percent in 1987, to $215.3 million. The Sentry purchase and renovations also put a drag on earnings last year, however, with net down to $5.2 million from $5.4 million in 1986.

"Last year we spent the entire year absorbing our acquisition of Sentry, including the disposal of acquired inventory, remodeling costs and employee training," Applebaum noted recently. The result, he said, will be an earnings rebound beginning this year as the former Sentry stores come onstream and contribute.

Net income up

In fact, the Sentry purchase and renovation appears to be bearing fruit quickly. Converted units (virtually all have been renovated) are reportedly producing sales gains averaging 20 percent this year, and profits are rising.

Net income for the first quarter rose 31.2 percent for the 76-store chain, to $1.4 million. Included were the remodeled Sentry units, which Applebaum said made a "positive contribution" to first-quarter results.

One key measure of Arbor's underlying strength—despite escalating operating expenses and Michigan's fiercely competitive marketplace—has been continued healthy results in seasoned stores. Same-store sales were up a strong 9.3 percent last year, fueled by Arbor's increasing name recognition, strong photofinishing sales, aggressive advertising, convenience-oriented merchandising, and other factors.

"This is still a convenience business of low prices and basic merchandise," Arbor's chairman is fond of saying. "We're still dealing with a customer who's looking for essential items and a quick, easy trip into the drug store."

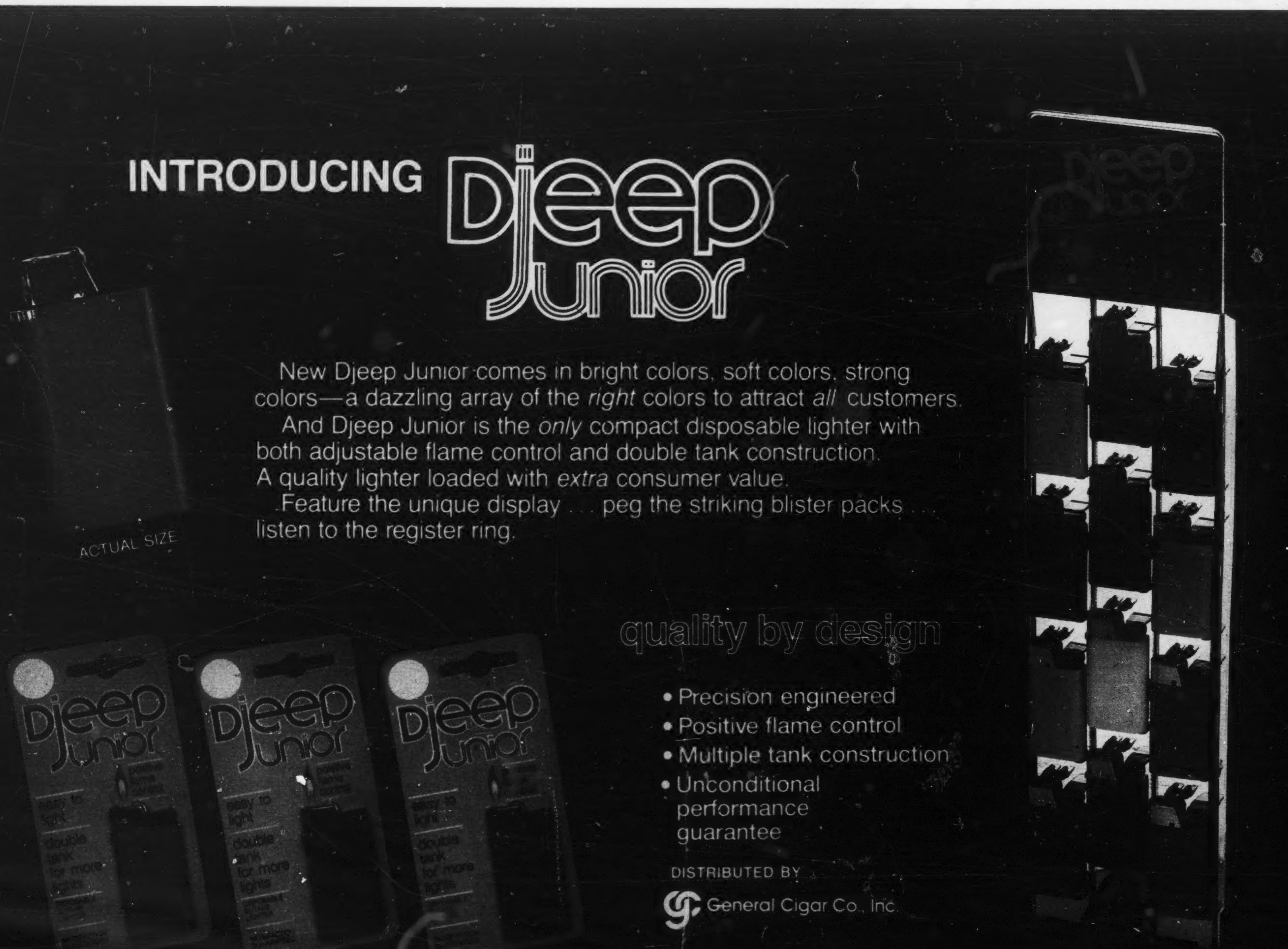
Arbor's leaders say the chain will have little trouble growing steadily by 10 units a year in Michigan, and he envisions a 150-unit operation in that state within the next several years. "You have to remember, we've already had to deal with all the kinds of competition in our home market that other chains are just now being hit with in other parts of the country," said Ernst. "We grew up alongside the discounters and the deep discounters and the powerful combo operators, and we've established our niche."

"We happen to love Michigan as a market," Applebaum said last year. The economy is diversifying, the outlook is bright, and we see plenty of opportunity left within our advertising umbrella for fill-in expansion."

Arbor took a major step last year to position itself for future growth when it broke ground on a new, 233,600-square-foot distribution center in nearby Novi, Mich. The center, which became operational in February, expands Arbor's warehouse capacity five times and creates new opportunities for deal buying and improved inventory control, say its leaders.

Arbor highlights

Name: **Arbor Drug Stores.**
Headquarters: **Troy, Mich.**
Officers: **Eugene Applebaum, chairman and ceo; Markus (Max) Ernst, president and chief operations officer.**
Store count: **76.**
Store size: **10,400 square feet.**
Region: **Southeastern Mich.**
Sales 1987: **$215.3 million.**
Highlights: **Began construction on 233,000-square-foot distribution center** to support growth to 150-unit chain. **Absorbed Sentry Drug Stores purchase, remodeling** former Sentry stores **for sales gains.**



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PERFORMANCE

Genovese, spurred by record sales, eyes costs, renovation

MELVILLE, N. Y. — Exhilarated by record sales and earnings achieved in fiscal year '88, Genovese Drug Stores is pushing forward with its recipe for success: alert management, stringent cost controls, aggressive merchandising, and store renovation.

"This is just the beginning," said Don Gross, vp-marketing.

"We're most proud of our 12.2 percent comparable-store increase in sales and the fact that our customer count is up 9 percent," Gross continued, citing such strategies as aggressive advertising, seasonal coupon books and an "excellent Christmas catalog" as getting the customers into the stores.

Renovation and enlargement of established neighborhood stores contributed to sales increases of from 30 to 35 percent for those units, he said, and that renovation and enlargement program will continue in '88.

Genovese alsc expects to open eight to 10 new stores this year, after opening only four units in 1987, partly because of construction snags. The new stores, in the 11,000-12,000-square-foot format, will all be located in current market areas, especially in Brooklyn and Long Island.

Genovese is breathing a corporate sigh of relief now that its 155,000-square-foot distribution center, opened in August 1985, is operating efficiently. "The balance of 1985 was tough," Gross acknowledged. "It didn't come on-stream as fast as we wanted."

Now, about 60 percent of merchandise is shipped from the warehouse. At press time, Genovese was exercising its option to buy the adjoining 110,000-square-foot property and now empty building it leases. Assuming that goes through, the company will have a total of 265,000 square feet, which will enable it to "spread out," Gross said. Over the next six months, the chain will be adding more lines, such as stationery, to the warehouse.

Despite some other troubles in 1985 and 1986, including the departure of Patrick Edwards in '86 after a short stint as president, Genovese dug in and achieved steady sales and profits growth in fiscal 1987.

Its pharmacy department, which accounts for about 24 percent of total volume, made an especially strong showing, achieving some 4.6 million prescriptions. And a particularly mean flu season has boosted pharmacy sales to record heights so far in '88, Gross said.

Genovese stepped up its efforts to highlight its health care image in 1987 by devoting regular flier and biweekly newspaper ad space to its Gen-Care Health Network, in addition to the informational brochures and reference product catalogs available at pharmacy counters. Although it's too early to gauge the effects of the increased effort, "we're excited about it," said Gross.

The chain has been testing scanning since March '87 and plans to introduce it into a third store right after Easter. Although Genovese at first proceeded slowly with scanning, "to work out the bugs," the company now plans to pick up the pace, targeting 10 to 12 stores on POS by year end.

Also in test are two photofinishing mini-labs. "We're feeling our way along," Gross said. "Depending on the sales and profits it produces, we'll roll out more."

With sales per square foot among the highest in the industry—$387 in FY '88—Genovese will continue to cultivate growth areas as small appliances, stationery/greeting cards, and candy, as well as private label, which grew from 0.5 percent last year to 1.5 percent of total sales so far this year.

Genovese highlights

Name: **Genovese Drug Stores.**
Headquarters: **Melville, N. Y.**
Chairman and president: **Leonard Genovese.**
Sales: **$313.9 million;** net income: **$4.6 million.**
Store count: **83.**
Average store size: **11,000 square feet to 12,000 square feet.**
Market: **Connecticut, New Jersey, New York.**
Highlights: **Achieved record sales and earnings** for fiscal year '88, as well as 12.2 **percent increase in comparable-store sales; began test of scanning** in two stores.

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PROFILES

Big B bestowed a record year in '87; lives up to its name

BESSEMER, Ala. — Big B lived up to its name in 1987, finishing the year in a big way, with record sales, earnings and store openings.

Year-end earnings shot up 62.8 percent, to a record $7.3 million, on sales of $248.6 million, an 18.5 percent increase.

Alabama's largest chain rolled out a record 33 drug stores, for a store count of 188, including seven Drugs for Less deep discounters and five home health care centers. Plans are to maintain a rapid expansion pace in 1988 by adding 25 units, to achieve 210 stores by year end. Expansion will be in all five states in Big B's trade area: Alabama, Florida, Georgia, Mississippi and Tennessee.

Although Big B's expansion has brought it to within 15 miles of Atlanta, via a unit opened in Conyers, Ga., late last year, the chain has no plans to enter the Atlanta market in 1988, said Arthur Jones, executive vp and treasurer.

In early 1987, Big B bolstered its presence in its home state by purchasing 13 drug stores from Jack Eckerd Corp. for an estimated $6.5 million.

Later in the year, the chain sharpened its drug store focus by selling its five B-Mart Food and Drug combos to former parent Bruno's. Big B is opening 8,500-square-foot to 9,000-square-foot drug stores adjacent to those sites, while Bruno's is running the former B-Marts as Food Fair groceries, rather than in the combo format.

Big B keeps its customers coming by offering a broad merchandise mix, competitive prices and upscale format. The typical drug store, which averages 9,000 square feet, includes appliances, automotive supplies, hardware and sporting goods, in addition to core drug store items. To improve profit margins, the chain last year trimmed its offering of electronic hardware and other high-ticket items and raised prices in such departments as stationery and hardware.

A boon to operating efficiencies has been Big B's 240,000-square-foot office and distribution center, opened two years ago, which supplies approximately 70 percent of drug store merchandise. The center's highly mechanized and automated systems help reduce labor, transportation and handling costs and increase the chain's purchasing and storage capacity.

Big B is continuing to roll out a POS system, which links electronic registers in its stores to a central computer system. The system enables buyers to gauge advertising effectiveness and track sales quickly.

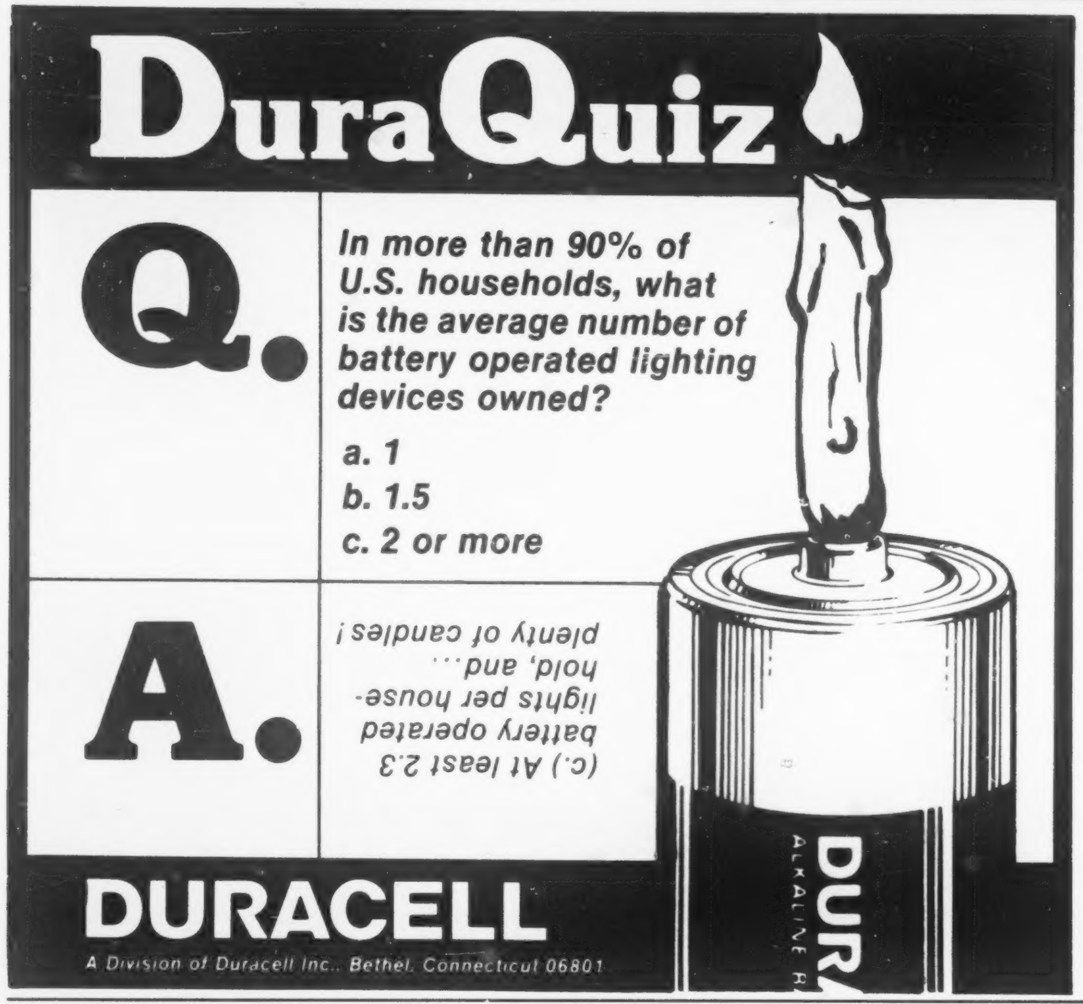
Pharmacy sales account for about one-third of Big B's drug store sales, and the chain attributes that above-average performance, in large part, to its senior citizen prescription discount program and its computerized pharmacy inventory and customer-account records system. A significant source of pharmacists has been its training program for pharmacy school students and graduate pharmacy interns.

The chain's five home health care centers, which average 4,800 square feet, also contribute to its strong health care image.

Big B ventured into the deep discount business about two years ago with its Drugs for Less, which it considers a growth area. The stores, which range in size from 10,000 to 18,000 square feet, offer discounts of from 10 to 50 percent and feature a large pharmacy department, as well as a drug store assortment that includes H&BA, cosmetics and greeting cards.

Big B highlights

Name: **Big B**
Headquarters: **Bessemer, Ala.**
Chairman: **Joseph S. Bruno.**
President: **Anthony J. Bruno.**
Sales: **$248.6 million,** a record.
Store count: **188.**
Average Big B store size: **9,000 square feet to 13,000 square feet;** Home Health Care centers, **4,800 square feet.**
Market: **Ala., Ga., Fla., Tenn., Miss.**
Highlights: **Opened a record 33 stores; bowed out of grocery business** with sale of its five B-Mart Food & Drugs to Bruno's; **bought 13 stores from Jack Eckerd Corp.**, strengthening home-state presence.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c. 2 or more

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Fantle group turning Dart Drug around with cash infusion

LANDOVER, Md. — Dart Drug Stores has stepped back from its fiscal precipice, thanks to fresh cash infused in November by an investor group headed by Sheldon "Bud" Fantle.

The former ceo of Peoples, who knows the Greater Washington market so well, saw in Dart "a great opportunity."

His initial $8 million investment bought him the chance to wrangle once more with the likes of Giant, Safeway, Rite Aid—and this time Peoples. He has been there before.

He predicted then that the initial investment would grow to $20 million to $25 million over six months. He said more cash and the sale of nonperforming assets would raise the cumulative investment figure to that level.

The management team, led by chairman Fantle and president Jeffrey Fantle, has already exceeded its promise to invest in Dart's turnaround.

Dart announced a $6 million stock offer last month, and said it will sell its 17 combination drug store/home centers. Three went to F&M for more than $9 million. Dart then immediately sold eight leasehold interests for $21.4 million cash; seven of them were combo drug store/home centers.

For years, market sources felt that these combos confused shoppers and clouded the image of what Dart sought to be in the marketplace.

For all the efforts by the team of former ceo Stephen Hansbrough, crushing debt killed the chain's cash position and put virtually every improvement plan on hold—as Dart struggled to survive. An initial public stock offering replaced some debt, but didn't help enough.

Vendors clamped down on credit, which led to 25 percent out-of-stocks in 1987, a Dart source told *Drug Store News*. "We were headed for disaster. We couldn't get shipments. We had no cash and no credibility," the source added.

Fantle, who eyed Dart on and off for six months before taking the plunge, "brings Dart credibility," another Dart source said.

Dart management is now using its fresh cash to buy inventory, reduce accounts payable and upgrade stores. Stores will have a more uniform approach, at about 15,000-square-feet, and will emphasize prescriptions more than in the past. Fantle, a pharmacist, is expected to raise Dart's script average to the industry norm.

Fantle said he will place pharmacy computers in every store within two years.

That will follow the completion of point-of-sale installations chainwide by mid-1988.

Dart's initial performance under new management showed shrinking losses on lower sales. The 83-store chain reported losses of $3.1 million in the second quarter ended Jan. 31, compared to a $5.2 million loss in the same period a year earlier. Sales in the quarter were $63.7 million compared to $74.0 million for the same period a year ago.

Dart Drug Stores highlights

Name: **Dart Drug Stores.**
Headquarters: **Landover, Md.**
Chairman: **Sheldon "Bud" Fantle.**
President: **Jeffrey Fantle.**
Six-months sales: **$119.7 million.**
Stores: **83,** including **five Total Plus deep discounters** in Richmond, Va.
Store size range: **5,000 square feet to 40,000 square feet,** chain plans to focus on 15,000-square-foot stores.
Primary markets: **Maryland, D.C., Virginia.**
Highlights: **Dart became public.** In November, former Peoples' ceo **Bud Fantle acquired controlling stake.**

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Lady Shaver

M & H drug business branching into new retail channels

MEMPHIS — A revamped franchise program spearheaded a new commitment by Malone & Hyde (M&H) to its drug business, which is anchored by the 106-store SuperD stores.

Targeting 100 stores in five years, the franchise division was to open its 10th unit in March. It is also launching franchised apothecary-sized units under the Consumer's Drug name this year.

Besides enlisting independents and new store owners as franchisees of stores averaging 6,000 square feet, SuperD plans to buy some Revco and Eckerd stores for new franchisees. The stores—scattered throughout SuperD's Mid-South market zone—are marginal performers, or in markets that are not promising for Revco and Eckerd, a SuperD source said.

Those units will be resold to independent wholesale customers of M&H, who want the advantages of operating under the franchise umbrella.

Satisfying capital needs

The franchise push meets the needs of M&H's leveraged buyout by allowing the drug division to maintain market share through new store growth that doesn't require significant capital spending. It is also suited to market conditions. Franchises offer a competitive vehicle for what chain officers say is an increasing number of embattled independents.

Franchising is only one of the new avenues through which M&H is pursuing drug growth, three years after management and Kohlberg, Kravis, and Roberts bought the $3 billion food and drug wholesaler and retailer.

The pharmacy component was added to its Ike's deep discount store format, as the first Ike's was launched in Nashville in May. Ike's two Memphis stores—retailing fixtures synonymous with everyday low prices—were also slated for pharmacies.

Supermarkets seek parity

Requests by supermarket customers of M&H's wholesale business led the drug division to put three pharmacies into Big Star and Piggly Wiggly stores. Officers expect that more of the SuperD-owned and operated pharmacies will be similarly placed, as the supermarkets seek competitive parity with the combos.

M&H's Megamarket and Super One super warehouse stores—both corporate-owned and franchised—also stood in line to receive their first pharmacies.

The drug component was set for rollout into units in Louisiana, Mississippi, and Arkansas, as well as in three corporate-owned warehouse stores in Nashville. Officers predict the stores will fill 500 to 600 daily scripts, as pharmacy accounts for 5 percent of the $800,000 to $1 million weekly volume.

Refinement continues

SuperD has continued to refine and experiment with its store formats which it feels must provide the convenience its customers expect.

The basic format features a center aisle running from the front door to the rear-of-store pharmacy counter. Gondolas are slanted toward the aisle, and their heights are varied to create maximum exposure of merchandise.

SuperD Drugs highlights

Name: **SuperD Drugs.**
Parent: **Malone & Hyde.**
Headquarters: **Memphis, Tenn.**
President, drug division: **Bob Billings.**
Sales 1987: **$180 million (estimated).**
Stores: **106** corporate-owned, **10** franchised.
Size: **6,000 square feet.**
Main markets: **Western Tenn., Northern Miss., Eastern Ark., Southern Mo.**
Highlights: **launched a revamped franchise program** planned as the main vehicle for growing the drug business. **Added a pharmacy to its Ike's deep discount** store and rolled it into Nashville.

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PROFILES

SupeRx Corp. sends out large ripples on drug chain pond

PHOENIX — While some confusion about the two SupeRx entities will probably always exist, there's no confusion about the strides that the Phoenix-based version has made in the past year.

Since its creation as a separate chain a little over a year ago, SupeRx Corp. has been sending out some rather large ripples from its Phoenix base.

Starting with a small acquisition of three Walgreens stores in Alabama last year, SupeRx has gone on to pick up seven more drug stores and three home health care centers. Now it is bidding to acquire Begley Company's 43 drug stores, six home health centers and 140 dry cleaning units.

At the same time SupeRx aggressively pursues growth opportunties, it is also taking steps to remake its marketing image with an upgraded merchandise mix, store layout and decor package that emphasizes core drug store categories and shopping convenience.

The strategy is being carried out by a team headed by Gerald Wolken, a former Kroger Co. veteran who was president of the Cincinnati-based SupeRx before Kroger decided to sell off its free-standing drug store business.

The purchasers of SupeRx included Rite Aid, which acquired a large chunk of SupeRx stores in Florida and the Southeast; a management-investment group that purchased the largest block of stores and formed a new company called Hook-SupeRx Inc. to run them; and Wolken's group, which used money from American Continental Corp., a Phoenix investment firm, to buy 48 SupeRx stores in Arizona, Georgia and Alabama.

SupeRx Corp.'s marketing thrust is exemplified by a new prototype that opened this past January in north Phoenix. It's a racetrack store modeled on the highly successful unit that SupeRx (Cincinnati) opened in Nashville several years ago.

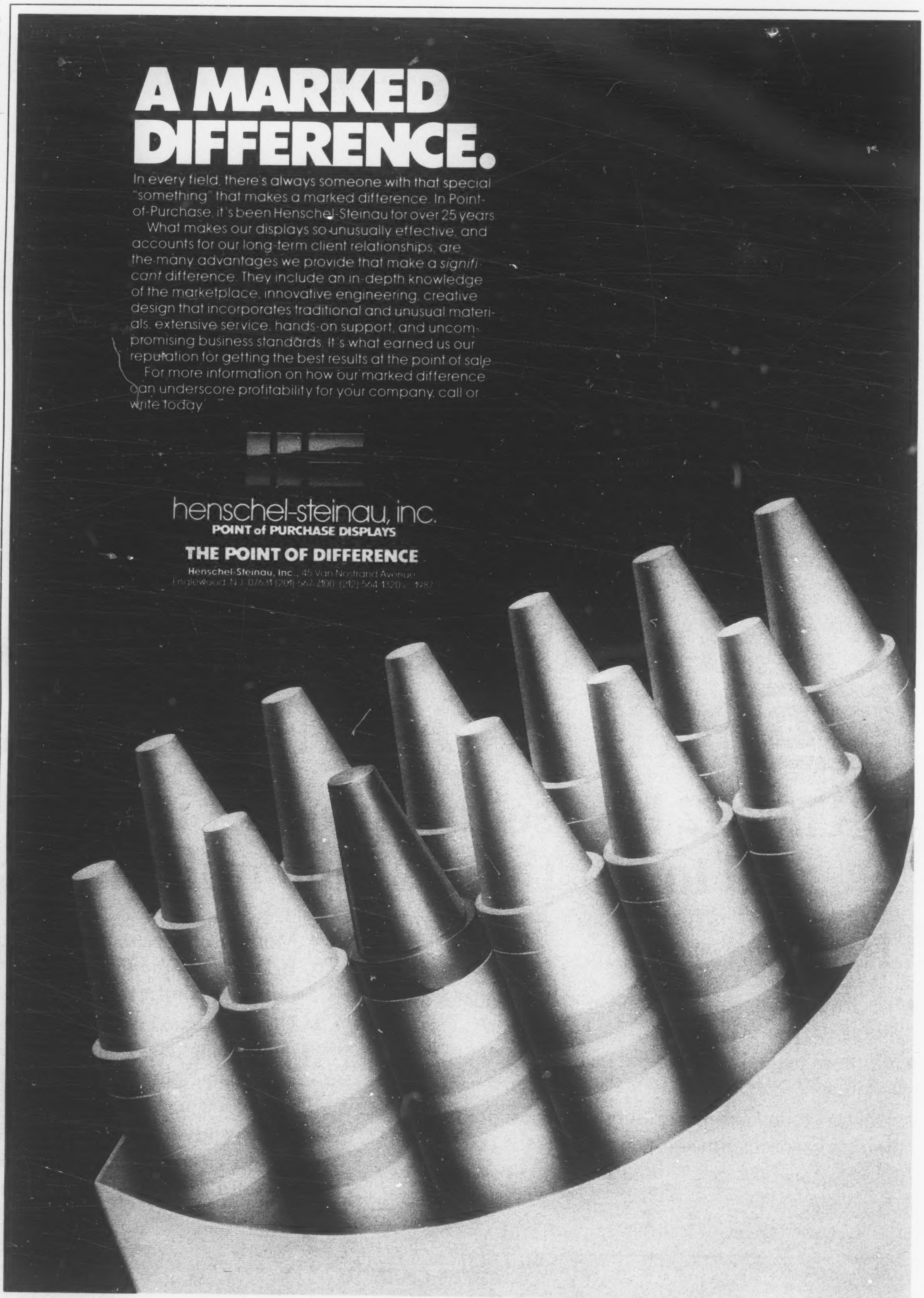
The Phoenix SupeRx team is seeking to duplicate the success of the Nashville store in the extremely competitive surroundings of this capital city. Two more racetrack prototypes are slated to open this year.

But SupeRx is not only focusing attention on the racktrack stores. The company is also remodeling and remerchandising a number of older stores. It is also rolling out a sleek new decor package that features a deep green and peach color scheme that has a distinctively Southwestern flavor. All stores not receiving major remodeling will get at least a freshening up of paint this year.

The chain is also adding cosmetics consultants to many of its stores in an effort to service the all-important woman customer. In addition, in the remodeled stores, the cosmetics department has been repositioned as a boutique near the front entrance. The department has a service bullpen, étagères and more space on the wall for prestige cosmetics. The aim: high visibility for the new upscale department store look.

SupeRx Corp. highlights

Name: SupeRx Corp.
Headquarters: Phoenix.
President: Gerald Wolken.
Sales: $90 million (estimated)
Stores: 59 drug stores, three home health centers.
Highlights: Bidding against Rite Aid Corp. to buy Begley Co.; opened prototype racetrack store in North Phoenix.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American bids for Lucky

Continued from page 1

it intends to sell Lucky's Arizona stores if it is successful in acquiring control of the company. American added that in view of antitrust considerations, it might sell certain other Lucky assets.

Michael Holt, American Stores vp-investor relations, declined to comment further on the company's plans.

In a letter to Lucky chairman John M. Lillie dated March 21, American Stores chairman L.S. Skaggs said his company planned "to combine our existing Alpha Beta stores with the Lucky operations and operate both under the Lucky name, utilizing Lucky's business philosophy, including pricing and marketing strategies." Skaggs further said that Lucky's management would be asked to stay and operate the combined Alpha Beta-Lucky company.

American Stores said in the SEC filing March 28 that the offer is conditional, among other things, on a majority of Lucky's 38.6 million shares outstanding being validly tendered and not withdrawn. The offer expires at 12:00 a.m. April 22.

In announcing receipt of the initial offer from American, Lucky noted that its certificate of incorporation includes a "poison pill" provision limiting the voting power of any stockholder to 15 percent.

Lucky's options, analysts said, are to hold out for an even better offer from American, seek another suitor or consider taking the company private through a leveraged buyout.

Lucky shares have traded above the $45 offering price ever since American disclosed its intentions March 21.

"I think Lucky will try to receive a higher price," in the $53-to-$58 range, said analyst Charles Cerankosky of Prescott Ball, Cleveland, adding that "Lucky is a superior chain in California to Alpha Beta." He indicated Alpha Beta would benefit from being run by Lucky.

Lucky fended off a takeover bid in late 1986 by investor Asher Edelman. It closed its laggard Gemco division and sold pharmacy files to competing retailers at that time.

However, "to the extent that Lucky no longer has significant underperforming assets to recapitalize itself, it is more vulnerable" to a takeover now, according to investment analyst John Kosecoff of First Manhattan Corp. in New York.

American Stores' offer was seen as a timely defensive move by American, against a backdrop of widespread takeover activity in the supermarket industry. In addition, a repackaging of Alpha Beta's operations in a merger with Lucky "would make it not only more profitable, but more attractive for later sale," Kosecoff said. "Skaggs is a transaction-oriented manager," Kosecoff said, whose method has been to "acquire at a reasonable price and sell off at a premium."

Although the buyout would primarily affect West Coast food operations, "it's possible that other Lucky and American properties could be sold to reduce debt burden," he added.

Morgan Guaranty Trust Co. of New York has committed $500 million to American's offer, confident that current market conditions would enable it to obtain commitments from a group of lending banks for the balance of the funds needed to complete the acquisition.

Wary American issues preferred share rights

SALT LAKE CITY — The board of directors of American Stores, which owns Osco Drug and Skaggs Alpha Beta combo stores, recently took steps to protect stockholders in the event of a hostile takeover attempt. The company also announced increases in sales and earnings for the year ended Jan. 30.

The board issued one preferred share purchase right for each outstanding share of the company's common stock.

In addition, the board authorized the redemption of the company's existing rights, a move designed to assure that all of American Stores' stockholders receive "fair and equal treatment" in the event of any proposed takeover and to guard against partial tender offers and other tactics to gain control of the company without paying all stockholders a control premium.

Each new right would entitle stockholders to buy one one-hundredth of a share of a new series of preferred stock at a price of $250, exercisable if a person or group acquires 20 percent or more of American's common stock or announces a tender offer that would result in ownership of 20 percent or more of the common stock.

American Stores ended the fiscal year with a net income of $154.3 million, or $4.19 per common share, compared with $144.5 million, or $3.79 per common share, last year. The company attributed the increase in earnings per common share to the lower tax rate for 1987 and to a gain on the sale of stores by Osco Drug in the Pacific Northwest. Year-end sales reached $14.27 billion, compared with $14.02 billion the previous year.

For the fourth quarter, American's net earnings dropped to $46.1 million, or $1.31 per common share, from $55.8 million, or $1.57 per common share, in the comparable period a year ago. Sales for the quarter rose to $3.8 billion, compared with $3.7 billion in the year-earlier period.

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Moody's eyes American's ratings

NEW YORK — Moody's Investors Service is reviewing the securities ratings of American Stores and its subsidiary, Jewel Cos., for a possible downgrade, prompted by American's tender offer to acquire Lucky Stores.

The ratings under review include:

- American Stores—Baa2 industrial development revenue bonds and baa3 preferred stock; and
- Jewel Cos.—Baa2 notes.

The acquisition of Lucky could significantly increase American Stores' financial leverage and weaken debt-protection measurements, according to Moody's. Moody's is evaluating the method of financing and the prospects for debt reduction, whether through operating cash flow or possible dispositions. The review also includes potential synergies between American's Alpha Beta, which holds relatively weak market positions in Northern California and Los Angeles, and Lucky, which has considerably larger shares in both markets.

		STOCK PRICE							EARNINGS/SHARE			P/E	DIVIDENDS	
		From 03/11/88 - 03/28/88								Latest 12 Months vs Preceding 12 Months Change			Indicated Dvd. Rate	
					Change		52-Week							
Name	Symbol	High	Low	Close	Amt.	Pct.	High	Low	Last Fiscal Year	Amt.	Pct.	Latest P/E Ratio	Amt.	Yield
-	-	$	$	$	$	%	$	$	$	$	%	-	$	%
Chain Store transactions														
Am Stores	ASC	61.00	54.50	54.88	.38	.69	86.25	41.50	4.19	.40 f	10.6	13.1	.84	1.5
Arbor Drugs	ARBR	11.75	11.50	11.75	.13	1.08	20.00	7.50	.81	.01 s	1.1	12.9	.00	.0
Begley Co	BGLY	30.00	28.00	28.50	.50	1.79	30.00	8.00	.04	-1.97 n	-100.0	NE	.00	.0
Big B	BIGB	13.25	12.63	12.63	-.13	-.98	15.38	9.13	.94	.33 f	54.1	13.4	.12	1.0
Dart Group	DARTA	76.50	72.00	72.00	-2.88	-3.84	170.50	59.00	19.24	-17.49 n	-100.0	NE	.13	.2
Fay's Drug	FAY	8.25	7.75	8.13	.00	.00	9.50	5.25	.45	.16 f	55.2	18.1	.20	2.5
Genovese Drug	GDX	13.38	12.50	12.75	.25	2.00	16.13	7.25	.69	.35 f	102.9	18.5	.16	1.3
Longs Drg Strs	LDG	36.38	33.00	34.88	1.13	3.33	41.00	25.13	2.33	.55 f	30.9	15.0	.80	2.3
Medicare Glaser	MGCO	2.38	2.00	2.13	.00	.00	5.25	2.00	.21	.08 n	200.0	17.7	.00	.0
Medicine Shoppe	MSII	26.88	25.00	26.00	1.38	5.58	26.88	16.50	.83	.17 q	23.9	29.5	.05	.2
Pay n Save	PAYN	3.38	3.13	3.38	.13	3.85	8.13	3.13	-1.57	.90 q	NE	NE	.00	.0
Perry Drug	PDS	10.00	7.50	8.88	1.38	18.33	14.13	5.25	-.78	-2.25 q	-100.0	NE	.00	.0
Rite Aid Corp	RAD	38.75	35.50	36.50	-.50	-1.35	46.25	28.50	1.89	.31 n	17.3	17.4	.74	2.0
Walgreen Co	WAG	33.63	30.25	31.00	-1.63	-4.98	44.88	24.75	1.68	.16 q	9.9	17.5	.60	1.9
Wholesaler's transactions														
Alco Hlth	AAHS	18.25	17.00	17.00	-.38	-2.16	21.00	10.88	1.39	.29 q	24.2	11.4	.12	.7
Bergen Bruns	BBCA	26.13	23.13	25.50	2.75	12.09	27.50	14.38	1.19	.69 s	60.0	13.9	.32	1.3
Bindley Wstn	BIND	9.63	9.00	9.63	.63	6.94	14.63	5.63	.30	-.53 f	-63.9	32.1	.00	.0
Cardinal Distrb	CDIC	15.75	13.75	15.50	1.00	6.90	21.61	10.38	1.11	.15 n	14.9	13.4	.08	.5
Durr Fillauer	DUFM	12.75	12.38	12.38	.25	2.06	12.88	7.25	.87	.05 f	6.1	14.2	.17	1.4
Ketchum	KCH	9.25	7.88	7.88	-1.25	-13.70	25.38	6.50	-1.40	-2.23 q	NE	NE	.00	.0
McKesson Cp	MCK	33.50	30.38	32.38	.88	2.78	39.25	23.25	1.95	-.21 n	-9.7	16.6	1.28	4.0
Moore Med	MMD	17.50	15.75	16.88	.50	3.05	32.63	11.50	1.46	-.07 f	-4.6	11.6	.00	.0
Owens Minor	OMI	18.50	16.50	16.88	.25	1.50	22.00	11.75	1.42	.18 f	14.5	11.9	.36	2.1
Manufacturer's transactions														
Abbott Labs	ABT	50.75	46.00	46.50	-1.50	-3.13	66.38	40.00	2.78	.46 f	19.8	16.7	1.20	2.6
Am Home Prod	AHP	83.75	77.50	77.88	-2.13	-2.66	96.75	62.00	5.73	.55 f	10.6	13.6	3.60	4.6
Baxter Travenol	BAX	26.13	22.75	23.25	-1.00	-4.12	37.50	15.50	1.10	.31 f	39.2	21.1	.50	2.2
Block Drugs Co	BLOCA	29.00	27.00	27.00	-1.00	-3.57	32.53	20.41	1.97	.28 n	14.7	12.3	.56	2.1
Bolar Pharm	BLR	23.63	21.00	21.88	.75	3.55	26.50	10.69	.91	.39 f	75.0	24.0	.03	.1
Bristol-Myers	BMY	45.50	41.25	42.00	-1.00	-2.33	54.13	28.25	2.47	.40 f	19.3	17.0	1.68	4.0
Carter-Wallace	CAR	43.25	39.88	40.25	.25	.63	57.00	24.00	2.14	.37 n	17.8	16.4	.54	1.3
Forest Labs	FRX	19.88	17.00	17.50	-1.50	-7.89	29.88	13.13	.77	.22 n	31.9	19.2	.00	.0
ICN Pharm	ICN	8.63	6.38	7.38	.13	1.72	17.13	5.63	-.92	-1.44 f	-100.0	NE	.00	.0
Lilly Eli Co	LLY	87.50	79.25	85.00	6.38	8.11	107.75	57.75	4.41	.40 f	10.0	19.3	2.30	2.7
Lee Pharm	LPH	4.75	4.13	4.50	.00	.00	10.75	2.75	-.48	-2.22 q	-100.0	NE	.00	.0
Leiner P Nutri	PLI	9.38	8.38	8.50	-.75	-8.11	20.50	6.13	1.01	-.05 n	-5.2	9.2	.00	.0
Marion Labs	MKC	23.38	21.00	21.00	-2.50	-10.64	41.50	20.13	.61	.34 s	75.6	26.6	.28	1.3
Merck & Co	MRK	165.00	155.50	160.25	.25	.16	223.00	144.00	6.68	1.83 f	37.7	24.0	3.84	2.4
Morton Thiokol	MTI	45.00	40.25	41.13	-3.63	-8.10	54.75	31.00	2.90	.42 s	15.2	12.9	.84	2.0
Mylan Labs	MYL	10.50	9.75	9.75	-.75	-7.14	17.13	7.63	.65	.07 n	11.7	14.6	.10	1.0
Newport Pharm	NWPH	4.25	4.00	4.00	.06	1.59	8.25	2.38	-.17	-.27 s	NE	NE	.00	.0
Par Pharm	PRX	20.00	17.75	18.00	-2.00	-10.00	27.25	12.13	.97	.49 q	86.0	17.0	.00	.0
Pfizer Inc	PFE	57.50	53.50	54.88	.25	.46	76.50	40.00	4.08	.18 f	4.6	13.4	2.00	3.6
Robins, AH	QRAH	27.00	25.75	25.75	-.25	-.96	29.63	12.25	-6.76	-10.14 f	-100.0	NE	.00	.0
Rorer Group	ROR	36.63	34.25	34.38	-1.00	-2.83	40.34	19.84	1.68	-2.18 f	-56.5	20.5	.80	2.3
Scherer RP Cp	SCHC	15.25	14.50	15.25	.88	6.09	20.50	11.25	.80	.90 n	1000.0	15.4	.36	2.4
Scher Plough	SGP	56.25	49.25	49.75	-3.75	-7.01	57.38	31.25	2.73	.56 f	25.8	18.2	1.20	2.4
Squibb Corp	SQB	68.25	63.63	64.00	-1.88	-2.85	102.88	55.25	3.42	.85 f	33.1	18.7	1.60	2.5
Syntex Corp	SYN	37.25	34.00	34.50	-1.88	-5.15	48.75	20.00	2.07	.47 s	25.5	14.9	1.00	2.9
Thompson Med	TM	13.88	12.25	12.25	-1.00	-7.55	25.00	8.38	1.11	.27 f	32.1	11.0	.40	3.3
Upjohn Co	UPJ	32.63	29.88	30.13	-2.25	-6.95	53.75	22.63	1.63	.28 f	20.7	18.5	.72	2.4
Warner-Lambrt	WLA	78.50	70.88	73.25	.00	.00	87.50	48.25	4.18	7.04 n	NE	18.4	2.16	2.9
Zenith Labs	ZEN	3.00	2.75	2.75	-.25	-8.33	12.88	2.50	-.19	-.76 n	-100.0	NE	.00	.0
Other Retailer transactions														
Albertson's Inc	ABS	30.25	28.00	28.00	-.13	-.44	34.00	20.25	1.88	.38 f	25.3	14.9	.56	2.0
K mart Cp	KM	36.63	32.63	34.25	-.63	-1.79	48.38	21.63	3.40	.42 f	14.1	10.1	1.16	3.4
Melville Cp	MES	69.00	63.50	64.00	-2.00	-3.03	84.00	44.25	5.25	.85 f	19.3	12.2	2.10	3.3
Penney, JC	JCP	48.63	44.38	47.25	2.50	5.59	66.00	35.25	4.11	.58 f	16.4	11.5	1.48	3.1

All data are based on sources believed to be reliable, but its accuracy is not guaranteed.
Every effort will be made to correct errors, when discovered, in future issues.

FOOTNOTES

NA - Item not applicable to this type of stock.
NC - Data required for calculation currently incomplete in our files.
NE - Negative earnings invalidate calculations.
NM - No meaningful figure.
q - First quarter
s - First six months
n - First nine months
f - Fiscal year

Data and Table Prepared by Media General Financial Services, Inc., Richmond, Virginia 23219

Best Selling Categories of Winter

The chart below lists the best selling categories in food stores for the months of December, January, and February.

The rankings are based on a special Sami study tracking seasonality growth trends by category. The categories that made the list had a base index of at least 110 for the three years ended in December 1986, and January and February 1987.

Knowing the index makes it easier for food, snack and household supply buyers in drug and mass merchandise stores to identify the categories that will turn the fastest for a planned seasonal promotion.

Foods and Groceries: Best Sellers of Winter

(Average three year index ranking)

December

Foods	Index Ranking
Canned cranberries	391
Novelty candies	322
Baking nuts	267
Dates	261
Canned onions	248
Packaged chocolate covered fruits	242
Piecrust mix	214
Canned potatoes	221
Corn syrup	218
Pie crust mix	215
Brown sugar	205
Stuffing mixes	202
Chocolate creams	201
Solid chocolate pieces	200
Maraschino cherries	198
Dry yeast	191
Canned pie filling	186
Coconut	185
Sterilized milk	183
Baking chocolate	182
Packaged hard candies	180
Croutons	179
Confectioner's sugar	176
Ripe olives	174
Cider	167
Molasses	165
Spanish olives	162

Nonfoods	
Heatable bags & wraps	292
Fireplace logs & bricks	251
Rock salt	176
Disposable containers	170
Coffee makers	153
Rodenticides	144
Flash bulbs	135
Batteries	132
Oven cleaners	126
Aluminum foil	126

January

Foods	Index Ranking
Dates	259
Maraschino cherries	252
Cake decorations	239
Coconut	210
Corn syrup	206
Molasses	202
Baking extracts	199
Cream of tarter	191
Canned meats	191
Confectioner's sugar	181
Baking nuts	180
Cake flour	180
Brown sugar	173
Marshmallows	166
Cocoa	166
Baking extracts	166
Pipe olives	162
Spanish olives	161
Chili sauce	160
Canned onions	158
Cider	157
Canned dry beef	151
Canned sauerkraut	147
Canned cherries	145
Cocktail mixes	145
Canned shrimp	142
Dried apricots	141

Nonfoods	
Fireplace logs & bricks	325
Rock salt	297
Flash bulbs	211
Batteries	153
Heatable bags & wraps	148
Disposable containers	143
Waxed paper	143
Coffee makers	129
Plastic flatware	119
Poly wrap	113

February

Foods	Index Ranking
Packaged nonchocolates	215
Packaged jellies	207
Packaged solid chocolate	201
Tartar sauce	171
Packaged other chocolates	164
Canned salmon	146
Diet desserts	140
Canned pie filling	137
Packaged novelty items	136
Canned cherries	134
Diet canned fruits	131
Dry frosting mix single layer	130
Chocolate covered creams	130
Oriental food	129
Hot cereals	127
Dry frosting mix double layer	126
Bouillon	126
Canned apricots	124
Canned spinach	123
Canned mixed vegetables	123
Dried prunes	122
Dehydrated soups	122
Milk modifiers	121
Canned pears	121
Canned tomatoes	121
Honey	120
Canned soup	120

Nonfoods	
Rock salt	169
Fireplace logs & bricks	114
Facial tissues	114
Bath additives	114
Light bulbs	112
Shoe polish	110

Source: SAMI Seasonality Study

FIRST ANNUAL CONSUMER GROCERY PURCHASE STUDY

Food Shopping in Nonfood Stores is Growing

Grocery shoppers say they are buying more grocery products in nonfood stores today than they were two years ago. Price motivates most sales

A third of all shoppers who buy groceries in discount stores say their purchases have increased in the past two years for the following categories: candy, gum, chips, snacks, non alcoholic beverages, packaged and canned dry groceries, laundry detergents and household supplies, pet foods and accessories and household paper products.

Only consumers who buy beer, wine & other alcoholic beverages in discount stores say their purchases on these items is either decreasing or remaining the same.

Just 8% say their purchases of alcoholic beverages in discount stores have increased in the past two years.

Drug Store Food Purchases

At least three out of every ten shoppers who buy groceries in drug stores say their purchases have increased in the past two years for the following categories: non alcoholic beverages, packaged and canned dry groceries, laundry detergents and household supplies, pet foods and accessories and household paper products.

A fifth of all drug store grocery shoppers also say their purchases have increased for these categories: candy and gum, chips and snacks, and beer, wine and other alcoholic beverages.

One half to two-thirds of all grocery shoppers in drug and discount stores also say that the last time they purchased candy, gum, chips or snacks in these stores, it was done on impulse.

Of the eight food and grocery categories we tracked, candy and gum led as the leading impulse purchase category in discount stores, while chips and snacks generated the most impulse purchases in drug stores.

Purchases in all the other categories were more likely to be planned rather than made on impulse.

There is, however, some indication that discount store purchases are more planned than are grocery purchases in drug stores, particularly for products like alcoholic beverages, packaged and canned dry groceries, and household paper products.

Purchases of pet foods and pet accessories were more often planned in drug stores than in discount stores.

Price Main Motivator

In both drug and discount

Many drug stores today have convenien
shoppers use drugstores for grocery pur

Nonfood Grocery Shoppers:
Changes In Frequency of Purchases +
(% of nonfood shoppers who say their purchases by category have increased in the past two years)

Category	Discount	Drug
Candy/Gum	34%	19%
Chips/Snacks	33	23
Nonalcoholic Beverages	32	32
Beer, Wine & Other Alcoholic Beverages	8	20
Packaged/Canned Dry Groceries	33	30
Laundry Detergents/Household Supplies	34	40
Pet Foods/Accessories	38	50
Household Paper Products	34	30

+ Based on interviews with consumers who do buy groceries in drug and discount stores
Source: Lebhar-Friedman Research

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stores, special low prices were the key factors in generating an impulse sale. Forty-seven percent of all consumers who made an edible grocery purchase on impulse in discount stores said it was motivated by low prices, and 53% who made such purchases in drug stores gave the same response.

Price was also strongly responsible for the impulse purchases of non-edible grocery items like household cleaners, laundry detergents, and paper products.

In discount stores, 68% of all shoppers who bought non-edible groceries on impulse said they did so because of price, while in drug stores, 60% said price was the reason they made an impulse purchase of a non-edible grocery item.

epartments, but just 31% of grocery buying

Non Food Stores: How Their Merchandising of Groceries Compares to Shoppers Purchasing Behavior

	% of stores carrying this category everyday		% of consumers buying this category in nonfood stores	
Category	**Discount**	**Drug**	**Discount**	**Drug**
Candy/gum	100%	93%	31%	24%
Cleaning supplies	95	93	39	15
Pet foods/accessories	95	67	16	4
Paper products like facial/toilet tissues	89	90	38	20
Chips/snacks	84	83	29	16
Nonalcoholic beverages	74	70	28	16
Packaged/canned dry groceries	42	37	29	12
Beer/wine and other alcoholic beverages	32	47	7	5

Source: Lebhar-Friedman Research

% of Nonfood Grocery Purchases Made on Impulse +

	Discount	Drug
Category	**% of Unplanned Grocery Purchases**	
Candy/Gum	67%	57%
Chips/Snacks	55	61
Nonalcoholic Beverages	29	42
Beer, Wine & Other Alcoholic Beverages	31	40
Packaged/Canned Dry Groceries	33	35
Laundry Detergents/Household Supplies	20	30
Pet Foods/Accessories	25	12
Household Paper Products	21	32

+ Based on interviews with consumers who do buy those categories in drug and discount stores

Source: Lebhar-Friedman Research

Factors that Motivate an Impulse Nonfood Edible Grocery Sale +

	Discount	Drug
Motivator	**(% of shoppers who gave this response)**	
Special low price	47%	53%
Were hungry & wanted a snack	34	33
Saw a large display	33	36
Remembered it was needed	33	22
Were thirsty & wanted a drink	9	17
Other reasons	13	19

+ Based on interviews with consumers who do buy groceries in drug and discount stores on impulse

Source: Lebhar-Friedman Research

FIRST ANNUAL CONSUMER GROCERY PURCHASE STUDY

Price & convenience motivates most grocery purchases in both drug and discount stores.

Who Buys Groceries in Non Food Stores

Most drug and discount store chains that carry grocery products have been enjoying double digit growth in this product segment, particularly with snacks, soft drinks, and household cleaning products.

But, according to Food Merchandising's first annual study of consumer purchasing behavior, the nonfood chains have just scratched the surface of the grocery category's potential for additional growth.

According to our study, which was implemented last summer by Lebhar-Friedman Research, just four out of every ten consumers are now buying grocery products, including snacks, in discount stores, while just three out of every ten consumers are buying snacks and traditional grocery products in drug stores.

The study's findings are based on interviews with males and females who were responsible for at least half of all their household grocery purchases.

44% of all consumers buy groceries in discount stores and 31% buy them in drug stores.

Our survey found that there is enormous potential for increasing grocery purchases in nonfood stores.

Frequency of Grocery Shopping is Low

Currently more than half of all grocery shoppers, 56%, are *not* shopping discount stores for food and grocery products, and an even higher portion of the grocery buying public, 69%, or two-thirds of all consumers, are not shopping for groceries in drug stores.

In addition, even though four out of every ten shoppers do buy groceries in discount stores and three out of ten buy them in drug stores, these shoppers are not making grocery purchases as often as they could and should be doing.

And this is primarily because neither drug nor discount stores are doing an adequate job of inspiring food and grocery purchases on a frequent basis.

Among shoppers who buy groceries in discount stores, just one in ten (25%) say they make grocery purchases in their local discount stores at least once a week or more.

And drug stores, which are more convenient to most shoppers than discount stores, do an even worse job with their shoppers. Just (19%) of all grocery buying drug store shoppers say they make a grocery purchase in their local drug stores at least once a week.

Lack of Consistency A Problem

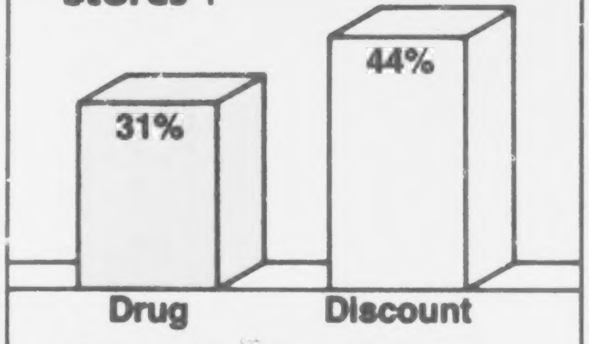
From interviews with consumers and buyers of grocery products for nonfood chains, *Fm* has indications that part of the problem is inconsistent merchandising of the grocery category.

Many consumers say they cannot depend on finding grocery products in drug and discount stores on any "consistent" basis. "There's no way I can make a planned food purchase in a drug or a discount store," said one woman shopping a New Jersey K mart, "unless I'm buying candy or a snack."

Most consumers say they make planned purchases only of "advertised" items, nuts, candies and crackers at Christmas, household cleaners and detergents at January and Dollar Day specials, and packaged commodity items like juices and cake mixes or facial tissues at varying seasonal periods.

Based on our research and follow up interviews with consumers and grocery product buyers for nonfood chains, it's apparent that drug and discount stores could increase the frequency of their grocery sales as well as broaden their universe of grocery shoppers by doing the following:

% of Consumers Buying Groceries In Nonfood Stores +



+ Based on interviews with shoppers responsible for at least half of all household grocery purchases
Source: Lebhar Friedman Research

Strategies For Maximizing Foods

- Maintain a consistent year-round grocery department
- Give the department visibility by putting it adjacent to high traffic aisles
- Advertise specials that would appeal to the main grocery household shopper
- Display the specially advertised items on end caps and floor displays adjacent to the grocery department
- Keep the pet department, the beverage department, the household cleaning department and the paper products department as close to the edible grocery department and the candy/snack departments as possible.
- Keep prices in all the grocery departments below the everyday retails in competitive food stores.
- Take advantage of the grocery manufacturers' growing interest in the nonfood trade to develop programs advantageous to year-round marketing of groceries.
- Tailor a grocery department to commodity and seasonal items that turn fast, generate incremental sales and encourage repeat customer visits.

How Often Consumers Shop Nonfood Stores for Groceries†

Frequency of shopping	Discount	Drug
Once a week or more	11%	6%
2-3 times a month	8	4
Once a month	16	8
Once every 2-3 months	4	6
Less often than once every 2-3 months	5	7
Never	56	69

†Based on interviews with shoppers responsible for at least half of all household grocery purchases
Source: Lebhar Friedman Research

Regional shopping patterns

Fm's first annual consumer grocery purchasing survey also found that there are regional differences in the way consumers shop for groceries.

Consumers living in the south are the most likely to purchase groceries in discount stores (56% do) while consumers living in the northeast are the least likely to buy groceries in discount stores (just 27% do).

Consumers who live in the west are the most likely to buy groceries in drug stores (37% do). But in the midwest, just 26% of all shopped say they buy groceries in drug stores.

Both drug and discount stores also sell more groceries to more affluent customers, to the households with incomes of $25,000 and above. Shopping at non food stores for grocery items is significantly less likely, the study found, among consumers with incomes of less than $25,000.

How Often Drug & Discount Store Consumers Shop Nonfood Stores for Groceries†

Frequency of shopping	Discount	Drug
Once a week or more	25%	19%
2-3 times a month	18	13
Once a month	37	26
Once every 2-3 months	9	19
Less often than once every 2-3 months	11	23

†Based on interviews with consumers who do buy groceries in drug and discount stores
Source: Lebhar Friedman Research

Affluent Shoppers Buy More Groceries In NonFood Stores†

(% of shoppers who buy groceries in nonfood stores)

Income levels	Discount	Drug
Under $25,000	36%	15%
$25,000 to $44,999	66	47
$45,000 or more	35	46

†Based on interviews with shoppers responsible for at least half of all household grocery purchases
Source: Lebhar Friedman Research

Discount store shoppers who purchase groceries are very likely to throw laundry detergent in their shopping cart.

The Groceries Consumers Buy in Nonfood Stores

Laundry detergents & household supplies are the grocery products most often bought in discount stores.

Candy/gum and household paper products are the groceries most often bought in drug stores.

In general, discount stores get more grocery category purchases from their shoppers than drug stores do.

Eighty-eight percent of the shoppers who bought grocery products in discount stores purchased items like laundry detergents and household supplies.

In contrast, according to our survey, just 48% of all shoppers who bought groceries in drug stores used their stores as sources of supply for laundry detergents and household cleaning items.

Briefly, here is a summary of how grocery purchase activity differs in drug stores vs. discount stores:

Groceries: What Shoppers Buy in Nonfood stores +

(% of nonfood grocery shoppers making these purchases)

Category	Discount	Drug
Laundry Detergents/Household Supplies	88%	48%
Household Paper Products	87	64
Candy/Gum	70	76
Chips & Snacks	67	50
Packaged/Canned Dry Groceries	67	37
Non-alcoholic Beverages	64	50
Pet Foods & Accessories	37	13
Beer, Wine & Other Alcoholic Beverages	15	16

+ Based on interviews with shoppers who do buy groceries in drug and discount stores
Source: Lebhar-Friedman Research

Report Card On Grocery Purchases: Discount Stores

- 88% of all shoppers who buy groceries in discount stores buy laundry detergents and household cleaning supplies;
- 87% of all shoppers who buy groceries in discount stores buy household paper products;
- 70% of all shoppers who buy groceries in discount stores buy candy and gum;
- 67% of all shoppers who buy gro-

ceries in discount stores buy chips, snacks and packaged or canned dry groceries;
- 64% of all shoppers who buy groceries in discount stores buy nonalcoholic beverages;
- 37% of all shoppers who buy groceries in discount stores buy pet foods and accessories;
- 15% of all shoppers who buy groceries in discount stores buy beer, wine or other alcoholic beverages.

Report Card on Drug Store Grocery Purchases

- 76% of all shoppers who buy groceries in drug stores buy candy and gum;
- 64% of all shoppers who buy groceries in drug stores buy household paper products;
- 50% of all shoppers who buy groceries in drug stores buy chips, snacks and nonalcoholic beverages;
- 48% of all shoppers who buy groceries in drug stores buy laundry detergents and household cleaning supplies;
- 37% of all shoppers who buy groceries in drug stores buy packaged and canned dry groceries;
- 16% of all shoppers who buy groceries in drug stores buy beer, wine and other alcoholic beverages; and
- 13% of all shoppers who buy groceries in drug stores buy pet foods and pet accessories.

So, as you can see, with the exception of two categories, candy/gum and alcoholic beverages, discount stores generate more grocery category purchases than drug stores.

Discount stores also get more overall grocery purchases.

As we noted in our main story, some 44% of all consumers buy edible and nonedible grocery purchases in discount stores, while just 31% of all consumers buy these same grocery products in drug stores.

Frequency of category purchases

Very few of the shoppers we surveyed, however, bought products in these eight categories very frequently in nonfood stores.

According to our survey, fewer than one third of those who purchase items in each category do so "once a week or more." However, shoppers tend to buy groceries more frequently in discount stores than in drug stores.

About a third (31%) of the shoppers in our survey said they bought pet foods and accessories once a week or more often in discount stores while just 25% said they made such purchases once a week or more in drug stores.

Thirty percent of the shoppers who bought nonalcoholic beverages in discount stores said they did so at least once a week or more, while 26% of those who bought their beverages in drug stores said they did so at least once a week or more.

Why Shoppers "Don't" Buy Groceries in Non Food Stores

Those consumers who do *not* shop at discount stores for foods/groceries say it is primarily because such shopping is "inconvenient" for them.

Four out of ten simply say their local discount store is "too far away" or "not in their neighborhood" so they don't think of buying groceries there.

Another 13% say they simply "prefer to do all of their grocery shopping in one place."

One in five shoppers said that they simply prefer to shop for groceries in supermarkets, while about one in ten say their local discount stores just didn't carry grocery items.

The reasons shoppers gave for not buying grocery products in drug stores also centered on convenience, but to a lesser extent.

Just 9% said that drug stores were "too far away" to make grocery purchases, or that they preferred "to shop in one place."

Just 14% said they didn't buy grocery products in drug stores because their local drug stores didn't carry such products, and only one in ten (9%) said it was because they preferred to purchase food items in supermarkets.

According to our survey, just one out of every ten shoppers aren't buying groceries in drug and discount stores because their prices are "too high."

Surprisingly enough, most shoppers didn't mind that drug and discount stores can only offer a limited selection of grocery items.

Just 4% of all the shoppers in our survey said "limited selections" was one of the reasons they didn't shop for groceries in drug and discount stores.

Why Shoppers "Do" Buy Groceries in Nonfood Stores

Those consumers who *do* shop for goods & groceries in non food stores say they shop these stores for three main reasons: price, convenience and product selection.

Most consumers who shop for groceries in discount stores said their purchases were generated by "low prices" (63%) and "advertised specials" (56%).

Consumers who bought food and grocery items at drug stores said they did so primarily because their local stores had "convenient locations" (55%) and "good advertised specials" (48%).

Discount store shoppers also said that maintaining products in stock and offering the best selection and variety were reasons they shopped for groceries in their local stores.

Drug store grocery shoppers, however, were less likely to report that having product in stock or offering a good selection were reasons for buying groceries in drugstores.

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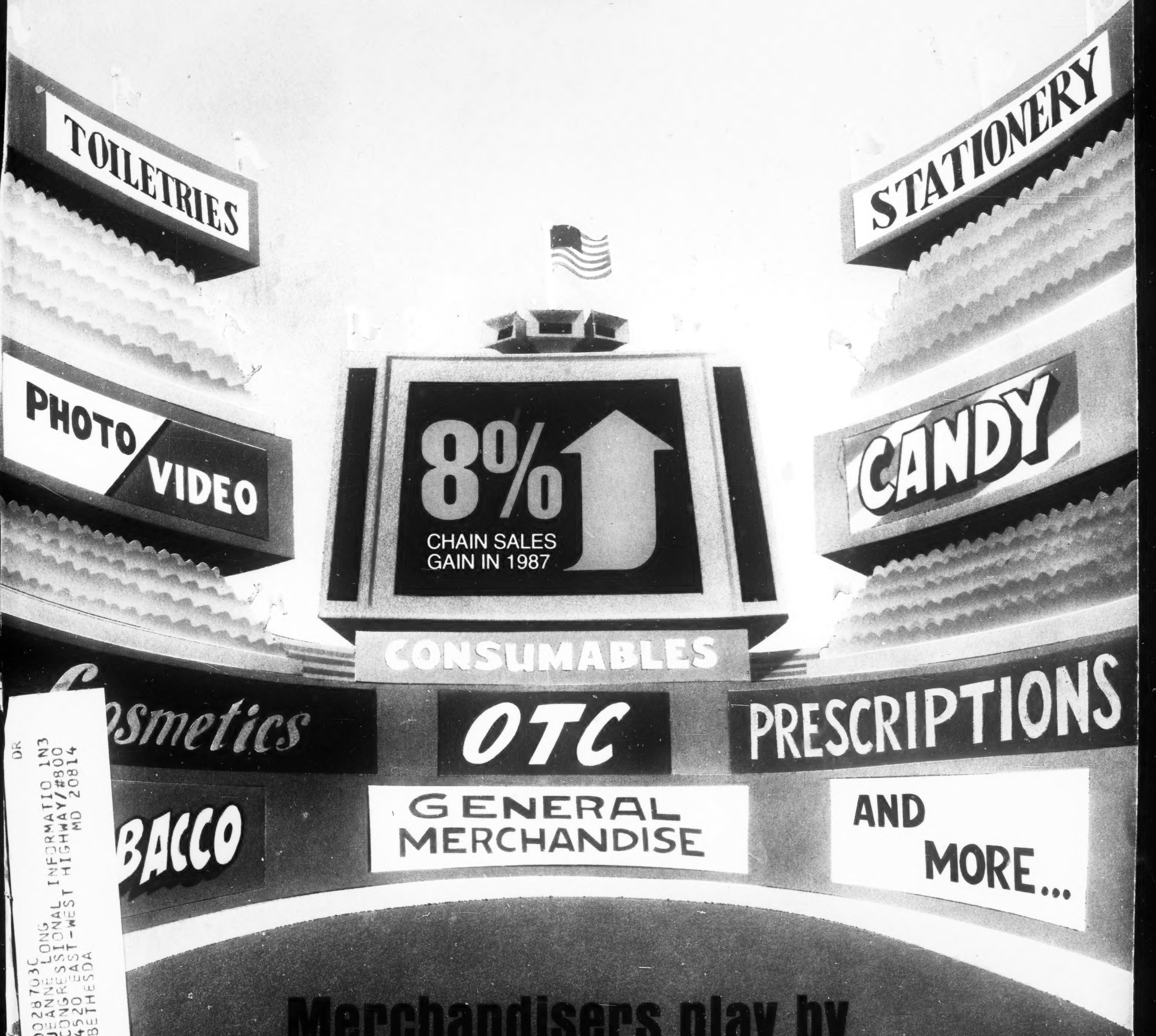
PART TWO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